ORDER NO. 18 189

ENTERED MAY 23 2018

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1728(3)

In The Matter of PORTLAND GENERAL ELECTRIC COMPANY, Annual Application to Update Schedule 201 Qualifying Facility Information.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at our May 22, 2018 Regular Public Meeting, to adopt Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

Made, entered, and effective MAY 23 2018.

Lisa D. Hardie
Chair

Stephen M. Bloom
Commissioner

Megan W. Decker
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 22, 2018

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **May 23, 2018**

DATE: May 15, 2018

TO: Public Utility Commission

FROM: Brittany Andrus BA

THROUGH: Jason Eisdorfer and JP Batmale JE JPB

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1728) Annual and post-IRP Update avoided cost updates, Schedule 201.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order approving Portland General Electric's (PGE) nonrenewable avoided cost update, effective May 23, 2018.

DISCUSSION:

Issue

Whether the Commission should approve PGE's May 1 update to its Schedule 201 standard avoided costs.

Applicable Orders and Rules

OAR 860-029-0040(4)(a) requires utilities to file updated avoided cost prices for qualifying facilities (QF) under PURPA1 within 30 days of Commission integrated resource plan (IRP)2 acknowledgment.[3]

[1] Public Utility Regulatory Policies Act of 1978.
[2] Integrated Resource Plan and least-cost plan are synonymous.
[3] "In the same manner as rates are published for electricity sales each public utility shall file with the Commission, within 30 days of Commission acknowledgement of its least-cost plan pursuant to Order No. 89-507, standard rates for purchases from qualifying facilities with a nameplate capacity of one megawatt or less, to become effective 30 days after filing. The publication shall contain all the terms and conditions of the purchase. Except when a public utility fails to make a good faith effort to comply with the request of a qualifying facility to wheel, the public utility's standard rate shall apply to purchases from qualifying facilities with a nameplate capacity of one megawatt or less."

The Commission added another avoided cost update in Order No. 14-058,

> [W]e adopt a new requirement for an annual update on a specific day each year, in addition to the current complete avoided cost update following each IRP [Integrated Resource Plan] acknowledgement order. We direct electric utilities to update their avoided cost rates 30 days after IRP acknowledgement, and on May 1 of every year. In the event that an IRP is acknowledged within 60 days of May 1 in a particular year, the Commission will use its discretion at that time to direct a utility to waive its 30-day post IRP update.
>
> Annual updates, filed every May 1, will include the following four factors:
>
> (1) Updated natural gas prices;
> (2) On- and off-peak forward-looking electricity market prices;
> (3) Changes to the status of the Production Tax Credit [PTC]; and
> (4) Any other action or change in an *acknowledged* IRP update relevant to the calculation of avoided costs.
>
> Electric utilities' annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing.[4]

<u>*Analysis*</u>

Background
PGE filed its avoided cost update on May 1, as required, and requested a May 8, 2018 effective date. In this update filing, PGE includes changes to factors (1), (2), and (4) from Order No. 14-058 above. The PTC component remains unchanged from current avoided cost prices. The current avoided cost prices became effective on September 18, 2017, after PGE complied with the Commission's direction to change the start date for the deficiency periods for both the nonrenewable and renewable avoided cost price streams and remove the solar integration charge from standard renewable avoided cost prices. More specifically, the Commission ordered PGE to change the start date of the deficiency period for standard nonrenewable avoided cost prices from 2025 to 2021 and to change the start date of the deficiency period for standard renewable prices from 2029 to 2025.

---

[4] *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.

IRP Acknowledgments
PGE's 2016 IRP was first acknowledged on August 8, 2017. In its acknowledgment order, the Commission stated, "We do not acknowledge PGE's action item to issue a request for proposals (RFP) for 175 average megawatts (MWa) of new renewable energy resources. We agree to allow PGE the opportunity to file a revised action plan regarding renewable resource procurement and present that to the Commission."

On November 9, 2017, PGE filed an addendum to its 2016 IRP to include a revised renewable action plan. The Commission acknowledged the revised renewable resource action, with conditions, for approximately 100 aMW of new renewable resources, on December 13, 2017.[5]

PGE plans use the output of the planned renewable resource to help to address PGE's capacity shortfall from the date the resource is on-line until 2025. PGE states it will not use the wind resource for Renewable Portfolio Standard (RPS) compliance until 2025. Instead, PGE plans to sell the RECs associated with the output and credit ratepayers with the revenues until 2025.

PGE filed a 2016 IRP Update on March 8, 2018 that included, among other items, updates to supply-side resource costs and operating parameters (lower capital costs for wind and solar resources, higher capital costs for a gas-fired combined-cycle combustion turbine), updated financial inputs (corporate income tax rate, financial parameters from the recently-concluded rate case,[6] updated economic lives for supply-side resources),[7] and updated capacity contribution values for incremental wind and solar resources. The 2016 IRP Update was acknowledged at the April 24, 2018 Public Meeting.[8]

Staff Review
Staff has identified no concerns with the majority of the inputs used to derive the updated avoided costs. Staff appreciates PGE's efforts to provide more extensive and clearer documentation of the model methodology and data sources, and the streamlining of the Excel model itself.

With respect to the effective date of the updated avoided cost prices, PGE requested an effective date of May 8, 2018, which coincided with the first public meeting in May. PGE

[5] *In the Matter of Portland General Electric Company 2016 Integrated Resource Plan* (LC 66), Order No. 18-044, issued February 2, 2018.
[6] Docket No. UE 319.
[7] Docket No. UM 1809.
[8] *In the Matter of Portland General Electric Company 2016 Integrated Resource Plan* (LC 66), Order No. 18-145, issued May 1, 2018.

provides its calculation of the potential harm to customers based on different effective dates,[9] based on an estimate of contracts that would be executed after May 8, and prior to either May 23 or June 20 effective dates. Staff is recommending a May 23, 2018, effective date, which according to PGE's filing results in an estimated customer impact of $8.5 million. Staff verified that this is a reasonable estimate of the cost impact based on the assumption that each contract proceeds to execution with no delays due to requests for additional information, changes, or other potential issues impacting the process. Staff has no way to determine a different number assuming fewer contracts being executed under existing avoided cost prices, but Staff does believe it is reasonable to assume a somewhat lower dollar impact based on past contracting milestone timing.

A May 8, 2018, prospective effective date was not feasible given the time required for Staff and stakeholder review, and for the drafting of a staff report. The only alternative would be to use a retroactive effective date of May 8, 2018. Staff does not support that approach because it is inconsistent with Commission direction for a predictable contracting process.[10] Staff believes that an effective date of May 23, 2018 best balances the need for a stable QF contracting process with potential customer harm.

A comparison of current avoided cost prices with those in the proposed update is provided in Table 1 below.

[9] UM 1728 Application to Update Schedule 201 Qualifying Facility Information, p. 3; May 1, 2018.
[10] *See e.g., In the Matter of Investigation to Determine if Pacific Power's Rate Revision is Consistent With the Methodologies and Calculations Required by Order No. 05-584* (UM 1442), Order No. 09-427 ("As part of our responsibility to provide incentives for QF development, we have adopted a process to provide predictability in avoided cost pricing in order to allow a potential developer or investor to easily evaluate the economic feasibility of a project.")

Table 1. Current and Proposed Levelized Avoided Costs (2020 - 2034)

Nonrenewable $/MWh

	Baseload	Wind	Solar
Current	$47.88	$38.76	$41.74
Proposed	$47.16	$36.43	$39.62
Difference	-1.5%	-6.0%	-5.1%

Renewable $/MWh

	Baseload	Wind	Solar
Current	$68.03	$61.89	$66.08
Proposed	$61.28	$53.97	$58.10
Difference	-9.9%	-12.8%	-12.1%

The proposed renewable avoided costs decrease due mainly to lower capital costs. The PTC is not a factor in the renewable avoided cost prices because it is not applied to either the current or proposed avoided cost prices.

An issue is raised by PGE's continued use of 2025 as the start date of the renewable resource deficiency period in light of the Commission's acknowledgment of PGE's plan to acquire 100 aMW of renewable resources in 2021. Staff addresses this issue in the discussion below.

Deficiency period for standard renewable avoided cost prices
PGE's May 1 Update includes no change to the deficiency/sufficiency period for either the renewable or non-renewable avoided cost prices. The current resource sufficiency period for non-renewable avoided cost prices is the period from the current year through 2020 and the current resource deficiency period is the period starting 2021. For non-renewable avoided cost prices, the current renewable resource sufficiency period is the period from the current year through 2024 and the deficiency period is the period starting 2025.

The Renewable Energy Coalition (REC) and Community Renewable Energy Association (CREA) ask the Commission to require PGE to update the input for the renewable resource deficiency period start date to 2021, based on PGE's planned acquisition of 100 aMW of wind in 2021 included in the Action Plan of PGE's recently acknowledged IRP Update. CREA and REC assert that Order No. 14-058 requires the utility to include all relevant updated inputs from an acknowledged IRP Update, not just those that decrease avoided cost prices.[11] CREA and REC assert that PGE's "2016 IRP Update now unambiguously contains the newly acknowledged renewable resource acquisition by 2021, and it is therefore an "action or change in an acknowledged IRP update relevant to the avoided costs."[12]

The question of whether the start date of the deficiency period for PGE's standard renewable avoided cost prices should be updated is challenging because there is ambiguity about whether the deficiency period is triggered by *any* planned acquisition of a renewable resource triggers or whether the deficiency period is only triggered when the planned acquisition is for the purpose of complying with Oregon's RPS. Although PGE plans to acquire a renewable resource in 2021, it does not plan to use the resource to comply with the RPS until 2025. Accordingly, if the deficiency period start date is triggered by any acquisition of a renewable resource, the renewable deficiency period should start 2021. If the deficiency period start date is triggered by acquisition of a renewable resource for RPS compliance purposes, the deficiency start date should remain at 2025.

The Commission discussed what should trigger the deficiency period start date during the Commission's consideration of PGE's post-IRP acknowledgment avoided cost filing at the September 12, 2017 public meeting. In its public meeting memorandum regarding PGE's filing, Staff recommended that the Commission adopt standard renewable avoided cost prices based on a deficiency-period start date of 2029. Staff noted that the Commission had declined to acknowledge PGE's Action Plan Item of acquisition of 175 aMW of wind in PGE's 2016 IRP and that the IRP included no other acknowledged acquisition of a renewable resource. Staff recommended that the Commission use 2029 as the start date for the renewable resource deficiency period because PGE's IRP reflected that this is the first year in which PGE will not have sufficient banked RECs (without some intervening action) to comply with Oregon's RPS.

The Commission rejected 2029 as the renewable deficiency period start date and selected 2025. Commissioner Decker acknowledged that 2029 may be first year in which PGE would have a REC deficit, meaning fewer RECs than required for RPS compliance, but stated that a REC deficit is not what triggers a renewable resource deficiency period under the Commission's previous order: "My understanding of how the renewable avoided cost order reads is that the renewable avoided cost deficiency

[11] Comments of the Community Renewable Energy Association and Renewable Energy Coalition ("Joint Comments"), pp. 4-6.
[12] Joint Comments, p. 11.

date is established based on when an acknowledged IRP takes action to address a compliance need."[13]

Commissioner Decker subsequently explained that she proposed 2025 as the start date of the deficiency period because of PGE's justifications for early action and maintaining a healthy REC bank prior to 2029.[14]

Chair Hardie also supported using 2025 as the renewable resource deficiency start date. Chair Hardie stated: "I think that if we are talking about actually paying a QF for what they might avoid, it kind of depends on how you characterize that 2025 purchase or acquisition."[15]

Chair Hardie subsequently noted, "I think the legal standard is you pay, you have to pay QFs for energy at any time whether you need energy or don't need energy. You pay QFs for capacity when the QF is helping you avoid a capacity need, or I guess in this case, a compliance need for a specific resource."[16]

Selection of 2025 deficiency period and previous Commission Orders
Staff believes that using 2025 as the renewable resource deficiency date best aligns the interests of ratepayers and QFs and is the most accurate reflection of the costs PGE will avoid. PGE does not plan to use the 100 MW of wind for RPS compliance until 2025. Accordingly PGE would not avoid RPS compliance costs with a purchase from a QF prior to 2025.

Order No. 11-505 specifies that a planned acquisition of a renewable resource in the utility's acknowledged IRP triggers the deficiency period for the renewable avoided cost price stream.[17] The order does not expressly require that utility acquire the renewable resource for the purpose of meeting the RPS in order to trigger the renewable avoided cost price stream deficiency period. Therefore, a strict reading of Order No. 11-505 supports the conclusion PGE's renewable deficiency-period start date should be changed from 2025 to 2021 because that is the date PGE plans to acquire a renewable resource.

However, Staff recommends that the Commission conclude Order No. 11-505 implicitly requires that a renewable resource be acquired to comply with the RPS in order to

[13] Recording of Public Meeting at 2:11.35 – 2:12.04.
[14] Recording of Public Meeting at 2:15.46-2:16-28.
[15] Recording of Public Meeting at 2:19.30-.45.
[16] Recording of Public Meeting at 2:21.21-45..
[17] *In the Matter of Public Utility Commission of Oregon Investigation into Resource Sufficiency Pursuant to Order No. 06-538 (UM 1396 Phase II)*, Order No. 11-505, p. 6.

trigger the renewable deficiency period. The Commission required PGE and PacifiCorp to adopt renewable avoided cost prices to compensate QFs when the purchase from the QF allowed the utility to avoid costs to comply with the RPS. Based on this rationale, it should be assumed that in order for the planned acquisition of a renewable resource to trigger a renewable deficiency period, the renewable resource must be planned for compliance with the RPS.

Finally, notwithstanding the meaning of Order No. 11-505, the Commission may decide upon a new policy if the rationale for doing so is explained.[18] Using either 2021 or 2025 as the start date for the renewable resource deficiency period is supportable based on statements found in the record for Docket No. LC 66.

Conclusion

PGE's standard renewable avoided cost prices are calculated accurately and should be approved.

PGE's nonrenewable avoided costs are calculated accurately and should be approved.

PROPOSED COMMISSION MOTION:

Approve PGE's nonrenewable and renewable avoided cost update, effective May 23, 2018.

UM 1728 PGE PMM.doc

[18] See *Gordon v. Board of Parole*, 343 Or. 631, 175 P.3d 461 (explaining that agency may act inconsistently with previous agency order if the inconsistency is explained).