ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 12, 2017

REGULAR <u>X</u> **CONSENT** ____ **EFFECTIVE DATE** **September 18, 2017**

DATE: September 7, 2017

TO: Public Utility Commission

FROM: Brittany Andrus

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1728) Updates Schedule 201, Qualifying Facility Information.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order directing Portland General Electric (PGE) to file a modified Schedule 201 to be effective two days after filing, but no sooner than September 18, 2017.

DISCUSSION:

Issue

Whether the Commission should approve PGE's post-Integrated Resource Plan (IRP) revisions to Schedule 201, which contain the power prices for qualifying facilities (QFs) eligible for standard prices.

Applicable Rules, Orders and Statutes

OAR 860-029-0080 provides, in relevant part:

> (3) Each public utility shall file with the Commission draft avoided-cost information with its least-cost plan[1] pursuant to Order No. 89-507 and file final avoided-cost information within 30 days of Commission acknowledgment of the least-cost plan to be effective 30 days after filing. The information submitted shall be maintained for public inspection and include the following data for calculating avoided costs:

[1] The term "least cost plan" is equivalent to "integrated resource plan," or "IRP."

(a) The estimated avoided costs on its system, solely with respect to the energy component, for expected levels of purchases from qualifying facilities. The levels of purchases shall be stated in blocks of not more than 100 megawatts for systems with peak demand of 1,000 megawatts or more and in blocks equivalent to not more than 10 percent of the system peak demand for systems of less than 1,000 megawatts. The avoided costs shall be stated on a cents-per-kWh basis, during peak and off-peak periods, by year, for the current calendar year and each of the next five years; and

(b) The public utility's estimated capacity costs at completion of the planned capacity additions and planned capacity firm purchases, on the basis of dollars per kW, and the associated energy costs of each addition or purchase, expressed in cents per kWh. These costs shall be expressed in terms of individual generating resources and of individual, planned firm purchases.

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(6) State review: Any data submitted by a public utility under this rule shall be subject to review and approval by the Commission. In any such review, the public utility has the burden of supporting and justifying its data. Any standard rates filed under OAR 860-029-0040 shall be subject to suspension and modification by the Commission.

Analysis

Background
On August 18, 2017, PGE filed updated avoided costs ten days after the August 8, 2017, public meeting at which the Commission addressed acknowledgment of the Company's 2016 IRP.

Discussion
The proposed updated avoided costs in PGE's August 18, 2017, filing are based on inputs from the 2016 IRP and on updated forward gas and electricity prices. The proposed avoided costs in PGE's August 18, 2017, filing update PGE's current standard avoided costs that went into effect on May 19, 2017, following the May 1 annual update for this year

Staff's analysis of PGE's avoided cost filing focused on five primary issues:

1. Nonrenewable deficiency period
2. Renewable deficiency period
3. Deficiency period monthly price calculations
4. Integration charges
5. Effective date

1. Nonrenewable deficiency period

In its explanation of the proposed nonrenewable avoided cost calculations, PGE states, "[t]he resource deficiency period for nonrenewable resources starts in 2025, consistent with the Commission's August 8, 2017, acknowledgment decisions."[2]

Staff disagrees that the Commission acknowledged a capacity need for PGE beginning in 2025. At the August 8 public meeting, the Commission acknowledged PGE's capacity need of 561 megawatts (MW) in 2021, and designated a series of steps for the Company to use in addressing this need. Staff concludes that the nonrenewable avoided costs should be recalculated using the 2021 deficiency period.

Staff recognizes that PGE has filed an application for waiver of the competitive bidding guidelines, which may or may not lead to a change in nonrenewable sufficiency status.[3] Staff does not support taking those potential outcomes into consideration at this time.

2. Renewable deficiency period

PGE calculates its renewable avoided costs using a renewable resource deficiency period beginning in 2029. Staff supports this demarcation as it is consistent with the Commission's August 8, 2017, decision to not acknowledge the Company's action item to acquire significant renewable resources by the end of 2020. Similar to Staff's position on the nonrenewable deficiency period, Staff does not support taking any potential supplemental action plan filings into consideration. The regulatory renewable portfolio standard need has been clearly defined for 2029. To the extent PGE or the Commission takes action in the future that impacts the start date of the next deficiency period, such actions *may* serve as a basis for an out-of-cycle update to avoided cost prices.[4]

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[2] PGE Standard Avoided Cost Study, 2016 IRP Update, August 18, 2017, p. 1.
[3] Docket No. UM 1892, Portland General Electric Waiver for Competitive Bidding Guidelines, filed August 25, 2017.
[4] Staff does not suggest that any action would necessarily result in a mid-cycle update, only that there is potential for such an update if circumstances warrant.

3. Deficiency period monthly price calculations

Below are shaded deficiency period renewable prices for the three QF types as proposed in this filing. The shading is darker at the lower prices and lighter at higher prices. Logically, absent a specific event or driver, prices should trend in the same direction year over year. However, especially in the months of May and June, that trend is not seen.

Renewable Fixed Price Option On-Peak $/MWh

	Base Load QF		**Wind QF**		**Solar QF**	
	May	Jun	May	Jun	May	Jun
2029	91.28	66.74	74.34	49.80	71.42	46.88
2030	84.69	62.99	67.41	45.70	64.43	42.73
2031	91.59	75.33	73.97	57.71	70.93	54.67
2032	89.34	66.65	71.47	48.78	68.40	45.70
2033	86.72	86.02	68.38	67.68	65.22	64.52
2034	88.59	73.28	69.82	54.52	66.59	51.28
2035	91.63	67.83	72.56	48.75	69.27	45.47
2036	82.91	55.60	63.51	36.20	60.16	32.86
2037	91.13	77.19	71.28	57.35	67.86	53.93
2038	84.94	70.00	64.69	49.75	61.20	46.26
2039	94.56	80.72	73.91	60.08	70.35	56.52
2040	87.55	75.00	66.49	53.93	62.86	50.30
2041	109.77	63.50	88.28	42.01	84.58	38.31
2042	93.22	64.66	71.31	42.74	67.53	38.97

Staff concludes that there is a systemic error in the price calculations and that they should not be approved as filed. PGE should investigate and propose revised prices that are not anomalous, or provide a detailed explanation of the underlying factors that result in these patterns. Staff has informally discussed this issue with PGE and the Company has agreed to propose an adjustment.

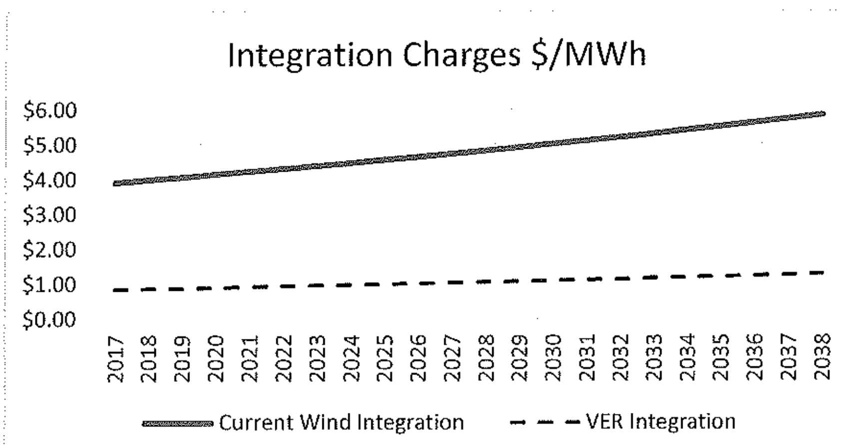
Additionally, documentation accompanying the workpapers for this filing includes a list of notes about the source for the inputs. Staff appreciates PGE's effort to draw a more direct line from the IRP document to the avoided cost calculations. Staff highlights below a key input that is not evident from the workpapers and documentation.
The calculation of the capacity payment, as directed by the Commission in Order No. 16-174 (Docket No. UM 1610), is based on the cost per kW-year of capacity (single cycle combustion turbine). This cost (value) is then adjusted for the QF's relative contribution to the utility's peak load, and a rate is developed that is forecast to compensate that type of QF for that capacity over the course of a typical year.

PGE's 2016 IRP provides charts depicting an approximation of the capacity contribution value for increments of wind and solar resources using an electric load carrying capability (ELCC) methodology.[5] Using this method, each additional increment of the same type of variable energy resource provides relatively less capacity value. For wind, PGE's avoided cost calculation uses the first penetration level, 100 MW, of Pacific NW wind in its avoided cost calculation, which is 18.59 percent. For solar, PGE uses the third level, 300 MW, because that reflects the level of operating and contracted-for solar at the time of the "snapshot" for the IRP. This results in a solar capacity contribution of 15.33 percent rather than the 28 percent contribution of the first 100 MW. Staff recommends that PGE provide more detailed documentation of its method of applying data inputs from the IRP to the avoided cost workpapers.

4. Integration charges

In this filing, PGE amended Schedule 201 to apply integration charges to solar QFs as well as wind QFs. Additionally, PGE updated the costs of integration based on the results of the Variable Energy Integration Study from the 2016 IRP. These updated costs are significantly lower than the wind integration charges currently in place as shown in Figure 1.

Figure 1.



Staff supports the use of the updated variable energy resource integration costs; however, Staff does not support the application of the same charge to both wind and solar QFs. Solar and wind have very different generation characteristics that should be incorporated into their respective charges, with solar integration generally being less costly than wind integration. Staff suggests that PGE conduct an analysis that

[5] PGE 2016 IRP, p. 127, providing the electric load carrying capability in increments of 100 MW for PNW Wind, Montana Wind, and Solar resources.

reasonably allocates the respective integration costs and file an amended proposal with the Commission.

5. Effective date

PGE submitted a Motion for Temporary Relief from its obligation to enter into standard contracts with QFs greater than 100 kW at the same time it made its August 18, 2017, updated avoided cost price filing. In accordance with this motion, PGE filed two versions of Schedule 201 each with a different effective date: one for use if the Commission granted the motion for temporary relief from entering into standard contracting and one for use if the Commission did not. If the Commission grants PGE's request for temporary relief from its obligation to contract for the period starting August 8, 2017 and ending on the effective date of its updated avoided costs, PGE asks that the effective date of its update be August 18, 2017(30 days after the updated cost filing). Alternatively, PGE asks that the effective date of its updated prices be August 8, 2017, the date the Commission acknowledged PGE's IRP. Staff does not support a retroactive effective date for PGE's updated avoided cost prices, nor PGE's request for temporary relief from its contracting obligation that PGE filed contemporaneously with its avoided cost price update.

Staff acknowledges that the prices proposed by PGE are less than the currently effective prices. However, Staff does not belief the difference is so great that the extraordinary relief asked for by PGE (temporary suspension of contracting starting August 8, 2017, or retroactive effective date) warrants departing from the Commission's traditional manner of implementing avoided cost price updates on a forward-looking basis only. Staff also does not think the difference warrants PGE's request for a suspension of its contracting obligation.

Staff recommends that any updated avoided cost prices resulting from a Commission decision on this filing become effective no sooner than September 18, 2017. Under OAR 860-029-0040(4)(a), utilities are required to file the post-IRP acknowledgment prices with an effective date 30 days after filing. Under OAR 860-029-0080(6), the prices are subject to suspension and investigation. The 30-day period between filing of avoided cost prices and the effective date of the prices provides opportunity for Staff and stakeholders to review the utility's filing and determine whether to seek suspension and investigation.

In this case, Staff does not recommend suspension, but does recommend that the Commission require PGE to make the Staff recommended changes to its proposed avoided cost prices discussed above in order to be consistent with the Commission's acknowledgment of PGE's 2016 IRP and the Commission's previous orders.[6] In order to allow time for PGE to make this compliance filing, Staff recommends that the effective date of new prices be two days after PGE submits the revised prices to Staff providing that this alternate effective date does not precede September 18, 2017.

Stakeholder comments
Comments filed by Falls Creek Hydro, L.P. (Falls Creek) on September 1, 2017, and the Renewable Energy Coalition, Northwest Intermountain Power Producers Coalition, and Community Renewable Energy Association (Joint Commenters) on September 7, 2017, are summarized below. Comments filed on September 7, 2017, by Strata Solar Development, LLC and by Borrego Solar Systems, Inc. were received as this staff report was being finalized and are not included below.

Falls Creek argues that PGE has not been negotiating in good faith in Falls Creek's efforts to obtain a schedule 201 standard contract with PGE.[7] Falls Creek outlines in comments the value that its facilities provide to the greater community.[8] Falls Creek argues that PGE's mistakes in the processes of its Schedule 201 standard contact application really represented delay tactics.[9] Finally, Falls Creek asserts that if its application is not approved based on avoided cost prices in effect at the time the request for a standard contract was made, its facility could be forced to shut down and the value provided by that facility to the community lost.[10] Falls Creek requests an effective date of September 18 for the application of updated costs, and requests Commission support for the resolution of issues in the development of a standard PPA with PGE.

Joint Commenters allege that QF developers have a reasonable expectation that new avoided cost rates would take effect in October or November; and that PGE is deliberately attempting to upset development schedules through accelerated avoided cost update requests.[11] Joint Commenters argue that PGE's request to make avoided cost updates retroactive is unprecedented.[12] They also note that PGE's motion does not comply with OAR 860-029-0040(4)(a); which states in relevant part that rates become effective "...30 days after filing."[13]

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[6] OAR860-029-0040(4)(a).
[7] Comments of Falls Creek Hydro L.P. at 2.
[8] Id. at 3-4.
[9] Id. at 5.
[10] Id. at 2.
[11] Renewable Energy Coalition and the Northwest Intermountain Power Producers Coalition and Community Renewable Energy Association's Joint Response to PGE's Schedule 201 Compliance Filing and Motion for Temporary Relief from Schedule 201 prices at 3.
[12] Id. at 4.
[13] Id. at 5.

Joint Commenters further argue that PGE's request for relief is not consistent with Commission rules and precedent valuing a settled business climate for QF facilities.[14] Asserting that PGE's actions to discourage QF development are duplicitous, Joint Commenters note that PGE strongly desires to acquire renewable energy before 2029, and that its real purpose in filing low avoided cost rates and a 2029 renewable energy deficiency period is to discourage competition from QFs for development of those renewable resources.[15] Joint Commenters argue that PGE has engaged in a series of stalling tactics with QFs attempting to complete contracts with PGE, and that accepting PGE's motion would encourage PGE's behavior.[16] Beyond a violation of rules, Joint Commenters argue that PGE's request for retroactive relief is inconsistent with state statute, which requires a filing of avoided forecasted prices.[17] Joint Commenters note that PGE itself has argued and the Commission ruled that avoided cost rates cannot be applied retroactively; and that broad utility regulatory standards support this proposition.[18] Going further, Joint Commenters assert that the retroactive relief requested by PGE violates the Due Process Clause of the U.S. and Oregon Constitutions.[19]

Next, Joint Commenters argue that there are serious substantive flaws with PGE's avoided cost update. Specifically, Joint Commenters argue that PGE has proposed inaccurate resource sufficiency periods, 2025 for nonrenewable resources and 2029 for renewable resources. Joint Commenters argue that PGE will certainly develop renewable resources before 2029, and that PGE's acknowledged capacity need is 2021.[20] Joint Commenters also argue that solar integration charges included in avoided costs are high, not supported by evidence, and that their inclusion in the avoided cost update is inconsistent with Commission order; which requires a separate filing and study.[21] Finally, Joint Commenters point out that that PGE's solar capacity contribution numbers are not consistent with its IRP filing; which shows solar capacity contributions of 25%; while the avoided cost filing puts those contributions at 15.3%.[22]

Staff's response to stakeholder comments

Staff agrees with Falls Creek that the effective date for the updated avoided cost prices should be no sooner than 30 days after filing. However, Staff recommends that the Commission allow the opportunity for PGE to make changes to its updated prices,

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[14] Id. at 7-8.
[15] Id. at 9.
[16] Id. at 10.
[17] Id.
[18] Id. at 11.
[19] Id. at 14.
[20] Id. 19-20.
[21] Id. at 23.
[22] Id. at 26.

which may mean an effective date later than 30 days after the date PGE filed the prices. With respect to Falls Creek's request for Commission assistance in resolving issues with its acquisition of a PPA with PGE, Staff notes that these questions are more appropriately resolved in the docket opened for the complaint that Falls Creek has filed, Docket No. 1859.

Regarding Joint Commenters' concern that developers generally expected new avoided cost rates to take effect in October or November, and that a mid-September effective date will "upset those expectations," Staff points out that it is within the utility's discretion as to when to make a post-IRP acknowledgment filing so long as it is within 30 days of acknowledgment. The public meeting for Docket No. LC 66 has been known to be August 8, 2017, since March 2, 2017. Staff concludes that this is sufficient notice that PGE would make an avoided cost filing within 30 days of August 8, 2017.

Staff agrees with Joint Commenters' concerns about the nonrenewable deficiency period, and for the reasons explained above, supports a 2021 demarcation for PGE's nonrenewable deficiency period.

Staff does not support Joint Commenters' assertion that 2029 is an incorrect year for PGE's renewable deficiency. Even though the Commission has offered a window of time within which PGE may return with a different renewable resource acquisition strategy, it is clear that the Company's regulatory need for renewable resources begins in 2029.

Staff generally agrees with Joint Commenters' concerns about PGE's addition of a solar integration charge that is identical to the wind integration charge.

<u>Conclusion</u>

In summary, Staff sees significant issues with PGE's avoided cost filing. Rather than not allowing them to go into effect and exacerbating the significantly out-of-date prices in Schedule 201, Staff recommends that PGE be directed to recalculate its avoided costs by making the following changes:

- Change the nonrenewable deficiency period to 2021
- Remove the solar integration charge
- Correct anomalies in capacity payments for renewable on-peak prices

In addition, Staff recommends that PGE recalculate integration charges based on an allocation between wind and solar, building on the variable energy integration study results in the 2016 IRP.

Finally, Staff recommends that changes the Commission orders in this docket be combined with any changes ordered for agenda Item 2 on this September 12 public meeting as that item also addresses changes to PGE's Schedule 201.

PROPOSED COMMISSION MOTION:

Issue an order directing Portland General Electric (PGE) to file a modified Schedule 201 to be effective two days after filing, but no sooner than September 18, 2017.