

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 18, 2017

REGULAR CONSENT EFFECTIVE DATE May 19, 2017

DATE: May 16, 2017

TO: Public Utility Commission

FROM: Brittany Andrus 

THROUGH:  Jason Eisdorfer and  John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1728) Updates Qualifying Facilities Avoided Cost Payments, Schedule 201.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order approving Portland General Electric's (PGE) Schedule 201 effective May 19, 2017, with one correction to the price for 2042.

DISCUSSION:

Issue

Whether the Commission should approve PGE's proposed annual update to its avoided cost prices and if so, whether the Commission should make the updated prices effective May 19, 2017.

Applicable Orders

On February 24, 2014 the Commission issued Order No. 14-058 in Phase I of its Investigation into Qualifying Facilities Contracting and Pricing (Docket No. UM 1610) resolving several disputed issues. One resolved issue was the "Schedule for Avoided Cost Updates." The Commission stated,

[a]fter reviewing the parties proposals, we 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 of 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.¹

Background

PGE's current standard avoided cost prices became effective on October 11, 2016.² Avoided cost prices in the current filing incorporate three of the four factors applicable to the May 1 annual updates: updated natural gas prices, updated forward market electricity prices, and a change to the status of the PTC. In this application, to update avoided cost prices, PGE asks for a May 17, 2017 effective date and argues there is need for "prompt action" due to prices that are higher than PGE's avoided costs.³

Discussion and Analysis

The avoided cost prices filed on May 1, 2017 are lower than those contained in the currently effective Schedule 201. Lower forward market electricity prices reduce sufficiency period prices for both nonrenewable (through 2020, deficiency starts in 2021) and renewable (through 2019, deficiency starts in 2020) price streams. Updated IRS guidance pertaining to the PTC, issued May 18, 2016, allows for a PTC proportion that is higher (100 percent) than in the 2016 avoided cost rates (60 percent). Lower gas prices impact nonrenewable avoided cost prices during the deficiency period, beginning in 2021. Avoided resource capital costs, for renewable wind and nonrenewable combined cycle combustion turbine, remain at the levels in PGE's acknowledged 2013 IRP.

¹ Order No. 14-058 at 25-26.

² Order No. 16-220, PGE avoided cost prices (Schedule 201) filed July 12, 2016, in compliance with Order No. 16-174.

³ UM 1728 PGE's Application to Update Schedule 201 Qualifying Facility Information p. 1.

The estimated 15-year levelized prices⁴ under the current and proposed schedules are shown in Tables 1 and 2 below.

Table 1. Standard Nonrenewable Prices (\$/MWh)

	Baseload	Wind	Solar
Current	\$43.62	\$28.18	\$32.20
Proposed	\$41.98	\$25.24	\$29.79
Difference	-4%	-10%	-7%

Table 2. Standard Renewable Prices (\$/MWh)

	Baseload	Wind	Solar
Current	\$72.21	\$53.86	\$61.37
Proposed	\$70.18	\$50.25	\$57.65
Difference	-3%	-7%	-6%

Production Tax Credits

Staff supports PGE's treatment of PTCs. In its 2016 Annual Update, put before the Commission on April 29, 2016, PGE updated costs to comport with the then-current state of the PTC. In that filing PGE asserted the following: "The PTC was approved with phase down and phase out provisions. The PTC is not included in current avoided costs and the addition of the PTC at a 60% level has the effect of reducing Renewable Avoided Cost prices during the deficiency period."⁵

Staff recommended that the Commission approve PGE's avoided costs, including the 60% PTC value, and the Commission did so on June 8, 2016. In the interim period, the IRS issued guidance extending the "online" date for the PTC to December 31, 2020.⁶ Table 3 below displays the sequence of events in question.

⁴ Staff assumes a 15-year period from 2018 through 2032 for the proposed pricing, and from 2017 through 2031 for the current pricing.

⁵ UM 1728 PGE's Application to Update Schedule 201 Qualifying Facility Information p. 2.

⁶ Notice published in IRS Bulletin https://www.irs.gov/irb/2016-23_IRB/ar07.html (also <https://www.irs.gov/pub/irs-irbs/irb16-23.pdf>)

Table 3.

Date	Event
April 29, 2016	PGE files 2016 annual avoided cost update.
May 5, 2016	IRS notice extending the "online" date for the PTC to December, 31, 2020 is first published.
May 18, 2016	IRS revised the May, 2016 notice.
June 6, 2016	Notice published in the IRS bulletin.
June 8, 2016	Commission adopts staff's recommendation for a June 22, 2016 effective date.

Accordingly, at the time PGE submitted its May 1 Update for 2016, PGE accurately reflected current IRS guidance on PTC expiration. Only after PGE made its filing did the IRS issue notice that it would extend the "online" date for the PTC. Had this guidance been published before the 2016 Annual Update filing, it would have been appropriate for PGE to incorporate into its avoided costs the full PTC, thereby lowering avoided cost prices. Staff concludes that PGE correctly included the May 18, 2016 IRS guidance in its 2017 Annual Update.

Stakeholder Comments

The Industrial Customers of Northwest Utilities ("ICNU") supports PGE's avoided cost filing. ICNU comments focus primarily on the timing of the new avoided cost rates. ICNU argues that avoided cost updates filed according to the May 1 deadline, may go into effect within 60 days, and are not required to take effect at a time close to that 60 day threshold, and instead may take effect in less time than the 60 day threshold.⁷ ICNU argues that the Commission must quickly approve the PGE's update to prevent subjecting customers to excess power costs.⁸

Wellon, INC. argues that PGE's proposed 17-day review period for stakeholders to examine its avoided cost filing is a very short time. Asserting that developers would benefit from certainty, Wellon, INC. recommends a 45- to 60-day delay for the effective date of updated avoided costs, timed to coincide with the last public meeting within the 60-day window.⁹ Wellon, INC. argues that if the Commission wishes to address an emergent condition, projects in negotiations should be "grandfathered" as the "short

⁷ UM 1728 PGE's Application to Update Schedule 201 Qualifying Facility Information, Comments of The Industrial Customers of Northwest Utilities, p.2.

⁸ Id. p. 3.

⁹ UM 1728 PGE's Application to Update Schedule 201 Qualifying Facility Information, Comments of Wellon, INC., p.1.

effective period was without precedent, unexpected, and PGE did not inform QFs with whom it was negotiating of its intent.”¹⁰

The Renewable Energy Coalition (the Coalition) requests that the Commission delay the effective date of PGE updated avoided costs to a point no earlier than June 28, 2017.¹¹ The Coalition argues that PGE has not justified its argument that a large amount of QF development is poised to be energized under higher than appropriate avoided cost rates, and that only a small percentage of these projects are likely to move into contract with PGE.¹²

The Coalition requests that updates be regular and predictable, and characterizes the updated avoided cost process from 2007-2015 as erratic.¹³ The Coalition argues that the Commission’s decisions last year to make proposed avoided costs effective on June 22, 2016 occurred because of the expectations of independent power producers, and to ensure predictability. The Coalition argues that this action created a precedent for an effective date corresponding with the day after the last public meeting in June. The Coalition points to the statements of Commissioner Bloom and Chair Hardie at the June 7, 2016 public meeting as indicating that legal predictability is an important value.¹⁴

The Community Renewable Energy Association (CREA) argues that PGE’s requested effective date for its avoided cost update undermines the “importance of regulatory predictability.”¹⁵ CREA asserts that PGE’s avoided cost filings are subject to unintentional or intentional error, and thus need high levels of scrutiny that cannot be completed in a short time frame.¹⁶ CREA requests that the effective date for the update be the last public meeting in June, providing additional opportunity for public comment prior to that time.

Staff’s conclusions

Staff reviewed the inputs and calculations in PGE’s standard nonrenewable and renewable avoided filing, including the reasonableness of the forward electric and gas prices, and the updated treatment of the PTC. This review of the Schedule 201 filing

¹⁰ Id.

¹¹ UM 1728 PGE’s Application to Update Schedule 201 Qualifying Facility Information, Comments of the Renewable Energy Coalition, p. 1.

¹² Id. p. 2.

¹³ Id. p. 4.

¹⁴ Id. p.10-11.

¹⁵ UM 1728 PGE’s Application to Update Schedule 201 Qualifying Facility Information, Comments of the Community Renewable Energy Association, p. 1.

¹⁶ Id. p.2.

and supporting work papers did not identify any concerns with the updated avoided cost prices for the period 2017 through 2041. Staff did identify a calculation error in 2042 avoided cost prices for nonrenewable wind and solar. This error does not impact the 15-year fixed price calculations above, which are based on prices in years 2018 through 2032. Staff discussed the 2042 prices with PGE, and PGE will file an amended application with changes to the applicable pages. With the exception of this item, Staff concludes that Schedule 201 as filed on May 1, 2017, meets the requirements contained in Order No. 14-058, and that the avoided cost prices in this filing are reasonable.

With respect to the effective date of PGE's May 1 filing, Staff interprets Order No. 14-058 to mean that the amount of time from proposed update to effective date is discretionary for the Commission. PGE and ICNU argue that the Commission should exercise this discretion to authorize an effective date of May 17, 2017, 17 days from the date of the avoided cost filing. PGE urges that the prices should become effective as soon as possible, arguing that customers face significantly increased costs associated with any delay in an avoided cost update.

It is Staff's understanding that other stakeholders, including the Renewable Energy Coalition (REC), believe that the effective date should be no sooner than the day after the last regularly scheduled public meeting in the 60-day period because that is the effective date for PGE's annual updates in 2015 and 2016, and because using this date provides predictability to the May 1 Update process.

Staff recommends that the Commission allow the updated avoided cost prices to become effective on May 19, 2017. As noted above, Order No. 14-058 only requires that the update be effective within 60 days after the filing. Staff believes that the Commission provided this flexibility so that the time between filing and effectiveness could change depending on how much investigation is needed to verify the inputs used by the utility. In this case, relatively little time is needed.

Staff understands the QFs' interest in predictability. However, Staff disagrees that specifying the date the May 1 Update will be effective in all circumstances is warranted. All stakeholders know that utilities will file a May 1 update and know which inputs will be updated. They also know that the update will be effective within 60 days of filing. Staff believes that this process provides sufficient predictability.

To the extent any stakeholder relies on Staff's recommendation regarding PGE's 2016 Annual Update, Staff believes the reliance is misplaced.¹⁷ In that matter, the avoided cost prices that PGE filed had an effective date of June 22, 2016, which PGE selected

¹⁷ Order No. 16-220 Staff Recommendation.

because it was the day after the last regularly scheduled period within the 60-day period following May 1. After PGE filed its avoided cost prices, the Commission cancelled the June 21, 2016 public meeting included PGE's avoided cost price filing resulted in disagreement as to whether the effective date should be the effective date PGE included in the avoided cost filing, which was the day following the originally scheduled public meeting, or the day following the public meeting at which the filing was actually addressed.

In that case, Staff recommended that the effective date be the day on PGE's filing, which was the date following the last public meeting scheduled within the 60-day period established in Order No. 14-058, in order to provide certainty to QFs nearing completion of executable PPAs.¹⁸

In this case, PGE requested an effective date of May 17, 2017. Accordingly, stakeholders had notice in this case that the prices could be effective as soon as May 17, 2017.

Staff believes that the increased number and capacity of solar QFs requesting pricing, in addition to the volume of solar QF contracts already in place, support PGE's position that prompt Commission action is warranted.¹⁹ Staff does not believe that PGE's hypothetical \$215 million ratepayer exposure would come to pass because all inquiries don't become executed contracts.²⁰ However, ratepayers will still be likely to pay a significant amount above PGE's current avoided costs. The negative impact of these outdated avoided costs is exacerbated by the fact that the last update of capital costs and other key components occurred in 2014, following PGE's 2013 IRP acknowledgment.²¹ Accordingly, Staff recommends an effective date one day following the May 18, 2017 meeting.

PROPOSED COMMISSION MOTION:

Staff recommends that the Commission issue an order approving Portland General Electric's (PGE) Schedule 201 effective May 19, 2017, with one correction to the price for 2042.

PGE UM 1728(2)

¹⁸ *Id.* p.4-5.

¹⁹ UM 1728 Application to Update Schedule 201 Qualifying Facility Information, p. 1.

²⁰ *Id.*, "PGE notes that it currently has 45 requests for QF contracts in its queue for a total of 531.2 MW of nameplate capacity. If PGE were to execute all of these contracts at the current avoided cost prices and if all of the projects achieved a commercial online date of 2020 then PGE customers would pay \$215 million more than if those same agreements were executed at the prices proposed in this filing."

²¹ Order No. 14-415, December 2, 2014.