

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

Docket No. UM 1788

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY,

2016 Revised Renewable Portfolio  
Implementation Plan.

Opening Comments

Staff of the Public Utility Commission of Oregon (Staff) presents its Opening Comments on Portland General Electric's (PGE or Company) 2016 Revised Renewable Portfolio Standard Implementation Plan (RPIP). Staff's Opening Comments address the substance of the Company's RPIP. Staff's final report to the Commission will include a comprehensive review of the responsiveness of PGE's 2016 Revised RPIP to the requirements found in OAR 860-083-0400, ORS 468A.075, and the additional questions posed in Attachment A of Order No. 16-157 (Attachment A). In addition, Staff's final report will address the standard of review associated with Commission acknowledgement of the RPIP, review of pertinent discovery, summaries of stakeholder comments, and an expanded summary of Staff's review and conclusions. Staff will also incorporate as appropriate additional material and analysis that may arise from ongoing discovery.

Staff structures these comments in consideration of the bifurcated information presented in PGE's unique RPIP, a result of the additional information requested by the Commission in Order No. 16-157.<sup>1</sup> First, Staff will discuss its analysis on PGE's five-year plan, the requirements and precedent of which are established in both OAR 860-083-0400 and previously filed implementation plans. Second, Staff will present its initial analysis on PGE's responses to Attachment A of Order No. 16-157, which contained a number of questions regarding the implications of SB 1547. Finally, Staff discusses potential changes to the RPIP process in order to prepare stakeholders for the upcoming RPS rulemaking process.

**Five-Year Implementation Plan**

PGE's 2016 Revised RPIP filing includes the Company's responses to the requirements prescribed under OAR 860-083-0400. Unlike what was sought in Attachment A, OAR 860-083-0400(2) currently provides for only a five-year forecast.

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<sup>1</sup> See Attachment A, Order No. 16-157, Docket No. UM 1755, April 22, 2016.

Staff below presents its initial analysis on the Company’s responses to the reporting requirements prescribed by the Commission’s administrative rules.

Resource Additions

Unlike all previous implementation plans filed by the Company, significant physical resource additions within the five-year forecast are contemplated in the Company’s 2016 Revised RPIP. Specifically, PGE includes 175 average megawatts (MWA) of new physical wind resources with “a target Commercial Operation Date in 2018” in all four procurement strategies developed to address some of the questions of Attachment A.<sup>2</sup> Within the boundaries of the 2016 Revised RPIP filing, no analysis or support is provided to justify this 175 MWA of major resource acquisition. Rather, Staff assumes the resource’s inclusion and presumptive need are present because of the resource’s corresponding request for proposal (RFP) that was released prior to the 2016 Revised RPIP filing.<sup>3</sup> Justifications for the 175 MWA found in the RFP are not present in PGE’s 2013 integrated resource plan (IRP) or its 2013 IRP update. Because of this, Staff turns to OAR 860-083-0400(4) which is instructive regarding necessary documentation for a new component such as the 175 MWA wind resource:

*If there are material differences in the planned actions in section (2) of this rule from the action plan in the most recently filed or updated integrated resource plan by the electric Company, or if conditions have materially changed from the conditions assumed in such filing, the company must provide sufficient documentation to demonstrate how the implementation plan appropriately balances risks and expected costs as required by the integrated resource planning guidelines in 1.b and c. of the Commission Order No. 07-047 and subsequent guidelines related to implementation plans set forth by the Commission.*

Further confusing the appropriateness of the 175 MWA wind resource, Staff understands that the Company would acquire capacity additional to the 175 MWA if the RFP produced beneficial results.<sup>4</sup> Ultimately, Staff is unable to accept the legitimacy of this proposed capacity addition in light of the uncertainty surrounding it.

Staff requests that PGE, in its reply comments, provide both narrative and supporting analysis to justify the assumptive need of the 175 MWA wind resource. Though the Company did provide Staff with data and analysis supporting the determination of 175 MWA under the proceedings in Docket No. UM 1773, the docket has since closed and PGE has withdrawn its RFP. In providing similar documentation to the Company’s

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<sup>2</sup> PGE’s 2016 Revised RPIP, at page 5, Docket No. UM 1788, July 15, 2016.

<sup>3</sup> The draft RFP was originally shared on May 13, 2016.

<sup>4</sup> Based on PGE’s remarks during a meeting and phone call held on May 18, 2016 with interested stakeholders regarding PGE’s draft RFP.

assertion that this particular resource addition is essential, the absence of an IRP could be somewhat alleviated in the context of this RPIP, which Staff addresses next.

*Absence of a Supporting IRP*

Staff was motivated to request a revised 2016 RPIP due to the departure of the Company’s 2016 RPIP renewable resource addition, as filed in Docket No. UM 1755, from its 2013 IRP Update resource acquisition strategy. Now that the proposed resource acquisition in the 2016 Revised RPIP in the next five years is greater than that proposed in the 2016 RPIP and yet with no new IRP filed, Staff finds itself more concerned about the Company’s proposed RPS compliance strategy.

Central to Staff’s concerns about the 175 MWA of renewable resource acquisition is that it directly contradicts the following position PGE stated in its 2013 IRP Update regarding ongoing RPS compliance:

*However, for the reasons cited throughout this chapter, a number of factors represent risks that may require PGE to rely on the current REC bank in future periods, including the potential for Oregon’s RPS targets to increase materially relative to the targets currently in place. Based on these factors PGE intends to maintain a minimum REC bank balance of 300-600 MWA. Based on a minimum REC bank balance of 300-600 MWA, **PGE concludes a physical renewable resource addition in 2024, balanced by reliance on banked RECs through 2023, enables PGE to delay costs of physical compliance in 2020.** This strategy provides a hedge against factors that pose future cost or compliance risks for PGE.<sup>5</sup>*

PGE also addressed how changes in federal tax policy, including those that incentivize renewable resource development such as the federal production tax credit and investment tax credit, could impact its RPS compliance strategy. PGE stated that it believed federal tax subsidies to the renewable energy sector would continue (the Consolidated Appropriations Act of 2016 passed two weeks after the Company filed its 2013 IRP Update), a position that contributed to the Company’s deferred renewable resource acquisition strategy stated in the quote above.<sup>6</sup>

SB 1547 did not change the RPS compliance for 2020 and only increased the RPS compliance for 2025 from 25 percent to 27 percent. Despite this reality and the position of deferment described in the 2013 IRP update, the Company nevertheless included a major resource acquisition in the 2016 Revised RPIP. That alone has Staff concerned and frankly bewildered. Additionally, the combination of the unique timing of SB 1547, PGE’s retracted RFP, the incoming 2016 IRP, and the lack of material support for the

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<sup>5</sup> PGE’s 2013 IRP Update, at page 60, Docket No. LC 56, December 2, 2016.

<sup>6</sup> Ibid, at page 57-58 (emphasis added).

175 MWa are reasons for Staff’s abundance of caution in developing a response to the Company’s analysis.

Staff recognizes PGE’s effort in producing the 2016 Revised RPIP while also continuing the 2016 IRP process. In addition, Staff also acknowledges the warning PGE offered to stakeholders when the timeline of the 2016 Revised RPIP was under discussion due to the ongoing work of the 2016 IRP. OAR 860-083-0400(4) provides opportunity for the electric company to support an analysis that does not align with the most recently filed IRP or IRP update. Given what PGE has presented in its five-year plan, a final and fully analyzed IRP that is comprehensive of the rather aggressive changes to the state, regional and federal energy and environmental landscapes is clearly needed in order to provide Staff and stakeholders the information and data necessary to analyze PGE’s proposed RPS compliance strategy.

Far too substantial actions are taken in the Revised 2016 RPIP that cannot sufficiently be vetted under the current rubric of the RPIPs. The Company’s 2016 IRP is not anticipated to be filed until November 2016, which is approximately one month before Staff presents its final report recommendations to the Commission. In this proceeding, Staff therefore views this analysis as supplemental to what will come in the IRP as well as informative to the ensuing RPS rulemaking process.

### **RPS Compliance through 2040**

Staff appreciates PGE’s effort in answering the Commission’s questions regarding long-term RPS compliance as a result of SB 1547. However, Staff overall finds the Company did not sufficiently respond to some of the queries, some of which are explored further below. In some cases, Staff seeks additional information regarding the specifics of a proposed action, while in other instances Staff finds PGE’s position to be lacking on a broader level.

In either case, the topics below are not exhaustive of Staff’s concerns. Issues concerning PGE’s RPS compliance continue to be explored in discovery and Staff will present a more comprehensive analysis of PGE’s long-term RPS compliance plan in the final report to the Commission. This analysis will include a thorough evaluation of the Company’s responses to the five questions presented in Attachment A of Order No. 16-157.

### **REC Retirement Strategy**

Prior to the passage of SB 1547, utilities retired RECs strictly on a chronological basis: the oldest banked RECs were retired first and newly produced RECs were immediately placed into the REC bank. Now, besides those RECs with an unlimited life designation, RECs will have a five-year lifespan and can be retired as the utilities see fit. Staff recognizes PGE’s proposal at a conceptual level, which treats the retirement of both types of RECs (unlimited and five-year) on a similar, straight-forward ascending basis

using incremental cost as the determinant for retirement. Five-year RECs with the lowest incremental cost will retire first, followed by infinite-life RECs if PGE must resort to this method to achieve compliance. Though this seems like a logical methodology to transition to, one which PacifiCorp has also chosen to adopt, Staff has several concerns about PGE’s proposal.

**First**, Staff is dismayed by the lack of quantitative analyses and visualizations similar to those that PGE has produced in other dockets when discussing REC bank management, including PGE’s most recent IRP and Docket No. UM 1773. Such analysis and/or accompanying graphs or charts add clarity to a complex mechanism that involves multiple variables, a long time scale and regulatory milestones. Staff expected to see visualizations that depicted the management of the REC bank for each of the RPS compliance scenarios in the 2016 Revised RPIP. Included in these graphs could be RPS compliance levels, proposed physical resource additions, REC inventories broken into various categories (bundled, unbundled, banked, unbanked, etc.) and annual REC expenditures.

The amount of quantitative visualization that is provided in the main body of the 2016 Revised RPIP neither assists Staff in understanding the operations and implications of the Company’s proposed REC retirement strategy nor provides justification for the proposed long-term resource strategies. The latter underscores Staff’s concerns regarding the insufficient support required to demonstrate the contemplated RPS compliance strategies are in the best interests of ratepayers. Staff is willing to work with the Company to help guide the design of quantitative visualizations in order to aide in the 2016 Revised RPIP’s review. Discussions and products that arise from this effort can also contribute to future RPIP design.

**Second**, a strategy that prioritizes cost minimization on an intra-annual basis increases the risk for higher compliance costs on an inter-annual basis. If PGE experiences a year in which load unexpectedly increases and renewable resource production is lower, the Company would likely have to rely on more expensive RECs to be compliant, which could result in meeting or exceeding the four-percent cost cap.

This scenario is exacerbated in later years when the Company has a decreasing pool of banked RECs. Avoiding this scenario can be done through unbundled REC purchases to an extent, but a more manageable approach could be accomplished through a REC-retirement optimization model that retires RECs in a manner that distributes costs over multiple years. Under such a methodology, any given year might have slightly higher compliance costs than if the least-cost REC retirement strategy were employed, but guarantees that ensuing years will not experience sudden cost spikes.

**Third**, based on the possible risk from the least-cost REC retirement strategy, Staff questions whether PGE has considered other REC retirement strategies, including the cost-optimized model discussed above.

**Finally**, the cessation of first-in, first-out REC retirement engenders a quirk in the way PGE calculates incremental costs. Whereas before all RPS compliance costs were guaranteed to be allocated in the incremental cost calculations because a REC certainly would be retired, now some costs may be captured far after the physical resource produced that REC. In some cases, the REC may never be retired. PGE states that “the relatively high incremental cost of infinite-life RECs is forecast to remain in the REC bank through the 2030s in this strategy.”<sup>7</sup> Some of these infinite-life RECs have time stamps preceding 2016, resulting in a delay of at least 14 years before these RECs are accounted for in PGE’s incremental cost calculation. ***In this scenario, RPS compliance incremental costs are disconnected from the actual costs to ratepayers, who are paying for a resource regardless of whether that resource’s associated REC is retired.*** Staff explores this topic further later in these comments, but encourages PGE to provide greater insight into the Company’s planned REC retirement strategy in order to determine how significant an issue this could be.

#### Assumptions – Short Term

PGE identifies three dimensions of its analysis that produced the Company’s position on near-term renewable energy acquisition: federal tax credits for renewable energy resources, decreasing technology costs, and the time value of money. PGE only offers one paragraph describing how it approached this nexus of variables and their role in renewable resource procurement. Staff expected a much more substantive analysis, especially considering how PGE arrives at the position that “the time-sensitive nature of declining/expiring tax incentives is one example of the conditions under which the least cost/lowest risk strategy results in resource acquisition prior to physical need.”<sup>8</sup>

PGE does not provide any data regarding the variables, assumptions, or calculations that were used in analyzing these near-term dimensions or how they ultimately arrived at the importance of tax incentives. Staff finds the absence of such a robust analysis particularly troublesome in light of both a proposed major resource acquisition in the five-year window and the flexibility associated with the new REC banking rules. With PacifiCorp’s recent RFP results in mind, the need for transparency on how PGE arrived at its short-term position is essential.

#### Assumptions – Long Term

Staff agrees with PGE’s sentiment that there is no amount of certainty with an RPS compliance plan that spans ten years, let alone 15 years, especially given the current regional and national industry, regulatory and legal circumstances. To that end, Staff appreciates PGE’s initial attempt to determine an optimal RPS compliance and renewable resource acquisition strategy. Staff has sent, and plans to continue to send,

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<sup>7</sup> PGE’s 2016 Revised RPIP, at page 4, Docket No. UM 1788, July 15, 2016.

<sup>8</sup> Ibid., at page 5.

discovery pertaining to this particular section of PGE’s 2016 Revised RPIP and will present a much more thorough analysis in the final report to the Commission. However, at this time, how and why PGE arrived at the composition of the staged and utilized portfolios is unclear.

To better understand PGE’s portfolios, Staff would appreciate a narrative detailing how PGE constructed the composition and quantities of the four procurement strategies. Staff would like to know why the Company is not considering wind resources outside of the Columbia River Gorge, such as Montana or Wyoming, or as potential acquisitions later in the planning horizon.

What is clear is that PGE’s long-term RPS compliance plan would be strongly supported by a vetted and acknowledged IRP. Throughout the long-term compliance strategy component of the 2016 Revised RPIP, PGE highlights gaps in its analysis that will be filled by the ensuing 2016 IRP. Without a final version to review and corroborate the analysis presented in the RPIP, Staff finds the long-term RPS compliance plan is unable to stand alone.

Staff continues to explore PGE’s market factors such as forecasted natural gas costs and wholesale market prices. Of particular concern to Staff is the largely absent inclusion of regional developments in renewable resources. With California’s increased RPS, Washington’s potential carbon tax and plans regarding existing coal resources, an increasingly hospitable market and policy conditions for electric vehicles, as well as continuing drops in renewable resource prices, Staff believes more rigorous consideration and analysis is warranted in the RPIPs. Further driving this need is that the region is unlikely to see such environmental policy developments stop any time soon if history is any indication. Staff is currently contemplating whether additional scenarios should be modeled in addition to natural gas and carbon prices, such as lower wholesale market prices and increased load.

The changing energy landscape of WECC-member states also has the potential to substantially alter the regional REC market. PGE did not spare any sentiment on its position on the reliance of unbundled RECs, which Staff appreciates. Staff does not deny that the possibility of volatility in the market nor is it saying the utility must necessarily *rely* on unbundled RECs in meeting RPS compliance annually. However, current legislation that permits utilities to use greater than 20 percent of unbundled RECs from qualifying facilities located in Oregon as well as changing market dynamics that could potentially produce a greater supply of unbundled RECs indicates that PGE should place greater emphasis on this option in order to maximize RPS compliance opportunities for customers.<sup>9</sup> Staff will continue to explore this topic further in discovery.

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<sup>9</sup> ORS 469A.145(3).

Topics for the RPS Rulemaking

The Industrial Customers of Northwest Utilities (ICNU) has raised concerns regarding how PGE calculates incremental costs Docket Nos. UM 1755 and UM 1783. Changes to REC banking rules as a result of SB 1547 enhanced ICNU's concerns, which Staff shares to an extent. As mentioned earlier in these comments, the fact that a REC may be generated from a unit in a given year that is in customers' rates, yet the incremental costs of that particular REC may not be reflected that until a decade later, if at all, is exceedingly troubling. In anticipation of the rulemaking on aspects of the existing RPS compliance and implementation sections, Staff would like to begin the discussion on how to address this and other RPS-related issues.

At this point in time, Staff believes any aspect of RPS compliance or implementation in addition to incremental cost calculation is ripe for review; five years of filings are available for review and the RPS paradigm has changed with SB 1547. Staff believes that opportunity exists to strengthen the relationship between the RPIP and PGE's IRP, enhance the quantitative and qualitative analyses the Company must provide, and expand the variables that must be accounted for. Staff welcomes PGE's current thoughts on what revisions the Company may like to see in new RPIP requirements.

This concludes Staff's Opening Comments.

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