

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 6, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE December 7, 2016

DATE: November 28, 2016

TO: Public Utility Commission

FROM: Lance Kaufman ^{MLK}

THROUGH: Jason Eisdorfer ^E and Marc Hellman [#]

SUBJECT: PACIFICORP: (Docket No. UE 313/Advice No. 16-011) Renewable Resource Deferral Supply Service Adjustment, Schedule 203.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon should approve PacifiCorp Advice No. 16-011 with an effective date of December 7, 2016.

DISCUSSION:

Issue

Whether the Commission should approve Schedule 203 and allow recovery of PacifiCorp's 2017 Renewable Energy Credit (REC) compliance costs associated with seven new long term REC purchase contracts.

Applicable Rule or Laws

- ORS 757.205 requires that public utilities file all rates, rules, and charges with the Public Utility Commission of Oregon (OPUC).
- ORS 757.210 establishes a hearing process to address utility filings and requires rates be fair, just and reasonable.
- OAR 860-022-0025 requires that new tariff filings include statements showing the new rates, the number of customers affected, the impact on annual revenue, and the reasons supporting the proposed tariff.
- OAR 860-022-0030 requires that tariff filings which propose increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed

schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.

- OAR 860-027-0300(9) establishes deferred accounting procedures for public utilities.
- ORS 469A.120 allows all prudently incurred costs associated with compliance with a renewable portfolio standard to be recovered in rates.

Analysis

Background

Senate Bill 1547 (SB 1547) was signed into law by Governor Kate Brown and took effect on March 8, 2016. SB 1547 increased Oregon's renewable portfolio standard (RPS) requirements for PacifiCorp. Under the new standard, PacifiCorp forecasted a REC shortfall beginning in 2025. PacifiCorp issued requests for proposals in April 2016 for new renewable generation resources and for RECs, including bundled RECs and unbundled RECs. PacifiCorp evaluated both new generation proposals and REC proposals against a base-case alternative of building new generation on a "just-in-time" basis. The just-in-time alternative involves forecasting the future cost of new renewable generation.

Due to uncertainty regarding the future cost declines for renewable generating resources, PacifiCorp evaluated several scenarios for the just-in-time comparison. These scenarios included both low and high trends in renewable generation costs. PacifiCorp found that a least cost method of satisfying the new RPS was to purchase RECs through long-term contracts.

PacifiCorp chose to engage in early REC procurement at a cost point that results in a conservatively low level of early REC procurement. This decision selects the level of REC contracts that is optimal under a scenario of low future renewable generation costs. PacifiCorp engaged in seven contracts involving the purchase of nearly 6 million RECs over 21 years for a total cost of \$9.8 million.

Staff reviewed 26 responses to information requests submitted in this filing. A separate team of three Staff independently reviewed the PacifiCorp RFP filing.

Evaluation of PacifiCorp's RFP

In Order No. 16-188 the Commission directed Staff to "monitor, evaluate, and document" PacifiCorp's RFP process associated with this filing. Staff's review of the RFP did not raise any issues specific to this filing.

Potential impacts of conservatively low REC procurement

PacifiCorp selected a conservatively low level of REC procurement. PacifiCorp evaluated early REC procurement against multiple just-in-time scenarios. PacifiCorp chose to acquire fewer RECs than the amount supported by most scenarios. By selecting a lower level of early REC procurement, PacifiCorp reduces the risk that it will procure too many early RECs. However, because nearly all scenarios support a larger procurement of RECs, PacifiCorp is likely increasing future RPS compliance costs. Such costs could be avoided by engaging in a greater amount of early REC procurement. On average across the thirteen scenarios, PacifiCorp's selection is

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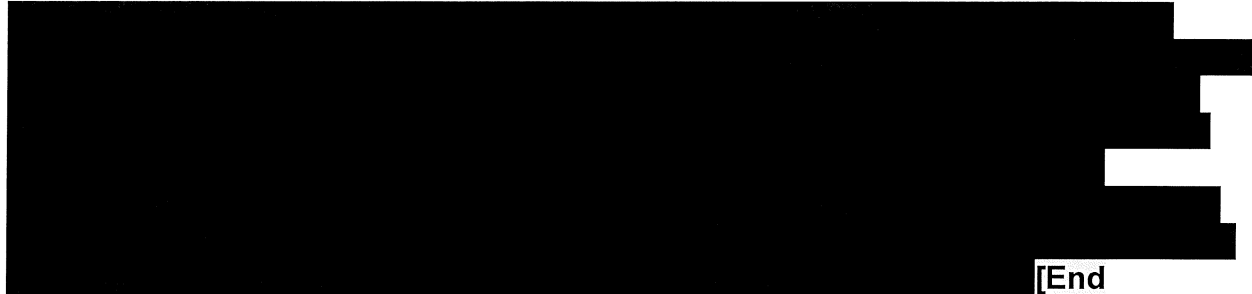
PacifiCorp's selection does not appear to be the least cost solution within the context of PacifiCorp's evaluation scenarios because it does not minimize cost in nearly all scenarios. However, it may still be justified under a broader set of risk and fairness metrics. Early acquisition of RECs shifts the cost of RPS compliance from future rate payers to current rate payers. In addition, uncertainty regarding future costs, energy use, and environmental regulation may justify a conservative approach to RPS compliance.

Unbundled treatment of RECs

PacifiCorp indicated through responses to Staff information requests that it intends to treat as unbundled RECs a substantial portion of RECs that might actually qualify for Oregon purposes as bundled RECs. PacifiCorp has indicated that the RECs in question might qualify as bundled and yet PacifiCorp has not provided an explanation for why the RECs should be treated as unbundled for Oregon purposes. Due to the structure of Oregon's RPS, unbundled are more constrained in how they may be used to meet RPS requirements than bundled RECs. This is an important issue that deserves greater scrutiny and consideration. However, there is not yet a clear precedent for classifying the treatment of PacifiCorp RECs allocated across states in non-traditional circumstances such as in this docket. Staff, interested parties, and PacifiCorp should continue to discuss and hopefully reach consensus regarding the treatment of the PacifiCorp bundled RECs with regards to allocations, and how disproportionate allocation might affect the status of the RECs, prior to January 1, 2018.

PacifiCorp's sale of RECs

PacifiCorp issued the REC RFP in April of 2016, received bids in May, and identified the final shortlist in July. In response to Staff information requests PacifiCorp provided information on RECs it sold to third parties between January 2011 and October 2016. PacifiCorp indicated that it **[Begin Confidential]**



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Confidential] Staff finds that PacifiCorp should evaluate and align REC sale and purchase criteria to prevent or minimize any potential for net losses for customers. Other PUC staff have tried to work with PacifiCorp to work up an agreement with willing states to purchase their RECs but that effort did not result in an agreement.

Conclusion

Staff's review of this filing raises three ongoing concerns:

1. PacifiCorp's conservative selection of REC contracts likely increases expected future RPS compliance costs.
2. PacifiCorp may treat qualifying bundled RECs that are the subject of this filing as unbundled, to the detriment of Oregon customers.
3. PacifiCorp is actively selling RECs, raising concerns for Staff that the sale and acquisition of RECs should be evaluated together and aligned to avoid any net losses.

None of these concerns are appropriately remedied in this filing. This is because the concerns relate to PacifiCorp's future RPS compliance costs while the current filing recovers certain 2016 and 2017 costs. The costs recovered by the proposed Schedule 203 appear prudently incurred, the rates are calculated in an appropriate manner and the Schedule should go into effect as filed.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's Advice No. 16-011 and allow Schedule 203 to go into effect with an effective date of December 7, 2016.