

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: 12/18/2017

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: November 20, 2017

TO: Public Utility Commission

FROM: Nadine Hanhan *NPH*

THROUGH: *J* Jason Eisdorfer and *JP for JC* JP Batmale

SUBJECT: PACIFIC POWER: (Docket No. UM 1846) 2016 Renewable Portfolio Standard Compliance Report.

STAFF RECOMMENDATION:

Staff recommends that the Commission find that Pacific Power (PacifiCorp) complied with the renewable portfolio standard (RPS) for the 2016 compliance period based upon the PacifiCorp 2016 RPS Compliance Report. Staff further recommends that the Commission direct PacifiCorp to retire the renewable energy credits (REC) identified in its 2016 Compliance Report, and to provide a Western Renewable Energy Generation Information System (WREGIS) retirement report to the Commission, subject to appropriate non-disclosure agreements, within 30 calendar days of its Order.

DISCUSSION:

Issue

Whether the Commission should find that PacifiCorp complied with the requirements of the RPS over the 2016 period.

Applicable Law

The RPS is codified at ORS 469A.005 through 469A.210. ORS 469A.170(1) and OAR 860-083-0350(1)(a) require that each electric company subject to Oregon's RPS provide an annual report demonstrating its compliance (or failure to comply) with the RPS.

Among the reporting details required by ORS 469A.170(2)(a-h) and OAR 860-083-0350(2)(a-s), the Compliance Report must contain a complete accounting of RECs used for compliance in the compliance year, separating the RECs into bundled or unbundled, showing clearly which generating unit produced the RECs, the total cost of compliance, and a detailed explanation of any material deviations from the electric company's applicable acknowledged RPS implementation plan filed under OAR 860-083-0400.

ORS 469A.170(2) and OAR 860-083-0350(2) subsections (b-g) provide the Commission with the information necessary to determine whether an electric company may be considered in compliance with the RPS. These subsections require the electric company to provide a complete Compliance Report that shows the electric company has acquired and retired an appropriate number of valid RECs, bundled or unbundled, banked or unbanked, for the compliance year.

ORS 469A.100(1) provides that “[e]lectric utilities are not required to comply with a renewable portfolio standard during a compliance year to the extent that the incremental cost of compliance, the cost of unbundled renewable energy certificates and the cost of alternative compliance payments under ORS 469A.180 exceeds four percent of the utility’s annual revenue requirement for the compliance year.”

Discussion and Analysis

Background

RPS compliance must be demonstrated through the retirement of RECs that are maintained through the WREGIS.¹ RECs may be either bundled with energy or exchanged separately (unbundled).² One REC is issued per megawatt-hour of generation produced.³

Qualifying RECs procured before March 31, 2017 may be used for the 2016 RPS compliance.⁴ Electric utilities can bank, for an unlimited duration of time: (1) RECs issued before March 8, 2016, (2) RECs generated for the first five years following the in-service date for utility-owned resources with a commercial operation date between March 8, 2016 and December 31, 2022, and (3) RECs generated during the first five years of operations at a facility with a commercial online date between March 8, 2016

¹ OAR 330-160-0020.

² OAR 330-160-0025.

³ OAR 330-160-0015(15).

⁴ ORS 469A.070(2).

and December 31, 2022, if acquired through a twenty year or longer PPA with the facility.⁵

Electric utilities can bank, for up to five years: (1) RECs issued from qualifying electricity from generators built prior to March 8, 2016; (2) RECs issued from qualifying electricity that becomes operational between March 8, 2016 and December 31, 2022 that is acquired through a contract for a duration of less than 20 years; (3) RECs issued from qualifying facilities five years after qualifying electricity that becomes operational between March 8, 2016, and December 31, 2022; and (4) RECs issued from qualifying facilities that become operational after December 31, 2022.⁶

Only 20 percent of a regulated utility's RPS compliance obligation may be satisfied using unbundled RECs, including banked unbundled RECs, in any given compliance year.⁷

PacifiCorp's 2016 Compliance Report

PacifiCorp's total number of megawatt-hours sold to retail customers in 2016 was 12,868,974. RPS compliance requirements for 2016 direct PacifiCorp to retire 15 percent of this total in 2016, which amounts to 1,930,346 RECs.

The following table shows how PacifiCorp reports retirement of the various types of RECs to meet the RPS compliance target for 2016 consistent with Oregon statutes and rules:

Type of REC	Number of RECs	Percentage of RPS
Unbundled – newly acquired	10,251	
Unbundled - banked	234,867	
Unbundled subtotal	245,118	12.7%
Bundled – newly acquired	1,685,228	
Bundled – standard banked	0	
Bundled subtotal	1,685,228	87.3%
Total	1,930,346	100%

⁵ Oregon Laws, 2016 Chapter 28, Section 7(3)(a) and Section 7(3)(c).

⁶ Oregon Laws, 2016 Chapter 28, Section 7(3)(b), (d), and (e).

⁷ ORS 469A.145(1).

PacifiCorp's 2016 RPS Compliance Report demonstrates compliance with the RPS through the use of 1,685,228 bundled RECs and 245,118 unbundled RECs. PacifiCorp's unbundled REC retirement amount falls under the 20 percent limit allowed by ORS 469A.145(1).

Staff reviewed PacifiCorp's calculation of the total cost of compliance and the percentage of revenue requirement (1.21 percent) that the cost represents. This value is below the cost cap of four percent of revenue requirement established by ORS 469A.100(1). See below for additional analysis.

Stakeholder Comments

Only Staff submitted comments in response to PacifiCorp's 2016 RPS Compliance Report. Staff filed comments on October 12, 2017. In its comments, Staff noted the \$11,938,000 cost difference in meeting 2016 RPS compliance as opposed to the 2015 RPS Compliance Report. In addition, Staff raised the issue of why the Company chose to retire higher-cost RECs from the Oregon Solar Incentive Program and relied less on zero-cost hydro RECs for the 2016 Compliance Report.⁸ Staff requested that the Company address the decision to use higher-cost RECs and rely less on lower-cost hydro in its Reply Comments.

PacifiCorp's Response

PacifiCorp responded to Staff's concerns by explaining that PacifiCorp retired more higher-cost RECs in 2016 to maximize the value of RECs before they expire. In other words, it retired certain RECs—in particular, five-year RECs—sooner rather than later to avoid being unable to retire them in the future. PacifiCorp also stated that this approach generally assumes that PacifiCorp will retire five-year RECs before retiring RECs with an unlimited life.⁹

In addition, the Company explained that determining which specific RECs to retire depends on levelized costs and variable inputs. PacifiCorp's overall strategy for retiring RECs thus is determined by 1) retiring RECs with the soonest expiration date first and 2) deferring lower-cost banked "golden" RECs for later years to minimize the risk of higher costs in the future when higher RPS targets hit. This strategy is also meant to avoid triggering the four percent incremental cost cap.¹⁰

⁸ UM 1846, Staff's Reply Comments.

⁹ PacifiCorp referenced its updated Renewable Portfolio Implementation Plan (RPIP) filed July 15, 2016 (UM 1790). In Staff's comments, Staff referenced an earlier RPIP for its analysis (UM 1681). The Updated 2017-2021 RPIP contains a different forecast than the one referenced in Staff's comments but does not impact the compliance analysis.

¹⁰ UM 1846, PacifiCorp's Reply Comments at 2 and 3.

Staff's Analysis

For the time being, it is reasonable to Staff that the Company would want to retire soon-to-be expiring RECs now rather than later. Staff also agrees that, for the time being, it is reasonable to defer lower-cost RECs into the future to mitigate the risk of meeting higher RPS targets. However, the Commission is currently undergoing a rulemaking, AR 610, which will address the implications of these strategies more thoroughly. As the current rules stand, Staff finds that PacifiCorp correctly determined the incremental cost under the directive in the current administrative rules, but newer issues such as impacts of SB 1547 will be addressed in AR 610, the RPS rulemaking.

Conclusion

Staff concludes that PacifiCorp has met the RPS compliance targets mandated by ORS 469A.052(1)(a) and will meet the RPS compliance reporting requirements mandated by OAR 860-083-0350 upon submission of the 2016 bundled REC incremental cost data.

PROPOSED COMMISSION MOTION:

- (1) Find PacifiCorp to be compliant with Oregon's Renewable Portfolio Standard during the 2016 compliance period; and
- (2) Direct PacifiCorp to retire the RECs identified in its 2016 Compliance Report, and to provide a Western Renewable Energy Generation Information System retirement report to the Commission, subject to appropriate non-disclosure agreements, within 30 calendar days of this Order.