BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1783

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY 2015 Renewable Portfolio Standard Compliance Report	REPLY COMMENTS OF PORTLAND GENERAL ELECTRIC

On June 1, 2016, pursuant to ORS 469A.170 and OAR 860-083-0350, PGE filed its 2015 Renewable Portfolio Standard Compliance Report (Compliance Report). Subsequently OPUC Staff filed initial comments (on July 12, 2016) and ICNU filed initial comments (on July 15, 2016).

Pursuant to OAR 860-083-0350(4), Portland General Electric (PGE) submits these Reply Comments in response to comments submitted by the OPUC Staff and ICNU.

I. PGE's Response to OPUC Staff

OPUC Staff appropriately pointed out that PGE did not fully respond to OAR 860-083-0350(2)(r). The omission was inadvertent and on August 5, 2016, PGE filed a supplemental filing to fully respond to this OAR.

II. PGE's Response to ICNU

ICNU states that PGE's Compliance Report does not accurately report the cost of compliance in its calculation. In particular, it alleges that PGE is not calculating its total cost of RPS compliance in accordance with statutory requirements, although ICNU acknowledges that PGE

did comply with applicable OPUC administrative rules in calculating the incremental cost. However, ICNU suggests those administrative rules are inconsistent with the statute. PGE disagrees and contends that it is properly calculating the incremental cost of compliance and is consistent with both administrative rules and statutes governing incremental cost, as we discuss below.

A. Incremental Cost Calculation

ICNU's main statutory argument is that ORS 469A.100(4), which describes the incremental cost calculation for the purpose of the RPS cost cap, requires PGE to utilize the delivered cost of qualifying electricity for a particular year, and not just the cost of unbundled and bundled RECs retired for that year. Comments of ICNU, p.5. ICNU's statutory construction argument is flawed. In particular, ICNU's read of this provision would either render ineffective other provisions of the RPS statute or not make sense in the context of the other provisions. This is contrary to fundamental principles of statutory interpretation in Oregon. ORS 174.010 provides: "In the construction of a statute, the office of the judge is simply to ascertain and declare what is, in terms or in substance, contained therein, not to insert what has been omitted, or to omit what has been inserted; and where there are several provisions or particulars such construction is, if possible, to be adopted as will give effect to all."

ORS 469A.100(4) must be read in context with the other provisions of the RPS Statute to give effect to them all. For example, ICNU is suggesting that the costs of electricity delivered from PGE's Tucannon River Wind Farm should be used for the calculation of the "cost of compliance," regardless of whether or not the environmental attributes (renewable energy certificates as defined in 469A.130) for that specific energy are used for compliance for that

year. ORS 469A.070, however, provides that RPS compliance is achieved by using bundled or unbundled RECs , or making alternative compliance payments. Compliance cannot be satisfied by delivered qualified electricity, such as the 2015 Tucannon energy, without the RECs. The incremental cost of the 2015 Tucannon delivered energy is not relevant to the cost of compliance, because that energy was not used for compliance in 2015 and the RECs were either sold or banked for future years.

ICNU's reading of ORS 469A.100(4) would undermine the REC banking provisions of the RPS. *See* ORS 469A.140 and SB 1547. REC banking is allowed by statute and PGE uses RECs from its bank to comply with the RPS. PGE has been banking RECs since it was first allowed in 2007 and recognizes the role that banked RECs play to manage RPS compliance risks and achieve cost-effective compliance for its customers. Prior to the passage of SB 1547, the RPS statute required that banked RECs with the oldest issuance date be retired before banked RECs with more recent issuance dates. To the extent that a utility's REC bank is comprised of any RECs with issuance date prior to the compliance year, this requirement of the former statute resulted in differences between the RECs used for RPS compliance and those generated in a compliance year. Under ICNU's construction, compliance under ORS 469A.070 for 2015 could only be accomplished by using energy delivered in 2015 plus the RECs associated with that energy. This completely ignores the fact that banking is allowed by statute. ORS 469A.140 and SB 1547. SB 1547 removes the provision requiring that earliest-created RECs be retired first; however, SB 1547 provides five-year banking. As we move forward with RPS compliance, our generation of RECs relative to the year in which we retire RECs[1] will change. The flexibility of

[1] Attachment A of PGE's RPIP, filed on July 15, 2016, shows the vintage (year of creation) of each REC and when it is estimated to be used for compliance

REC banking may be valuable for managing risks and achieving future cost-effective compliance.

PGE's RPS compliance filing complies with the administrative rules as well, which PGE believes are consistent with the RPS statutes. The definition of incremental cost as stated in OAR 860-083-0010(19) is "the cost of bundled RECs used for compliance for a compliance year as calculated in OAR 860-083-0100. This rule clearly contemplates PGE using retired RECs in a given year for compliance purposes. The rule does not state that the RECs have to be generated in a compliance year.

The cost of qualifying electricity delivered in a particular year is estimated through PGE's Implementation Plan. For example, on December 31, 2013, PGE filed its 2014 RPIP for the time horizon 2015 through 2019. In that RPIP, PGE filed work papers that provided PGE's forecast of qualifying electricity delivered in 2015 (the compliance year) in order to determine the incremental cost.

OAR 860-083-0100 states the incremental cost for qualifying electricity is the difference between the levelized annual cost of qualifying electricity delivered in a compliance year (in the example, 2015) and the levelized cost of an equivalent amount of electricity delivered from the corresponding proxy plant. This is how PGE calculated the incremental cost for 2015. This rule further states that PGE "must forecast the levelized incremental cost of long-term qualifying electricity in the following manner: a) the electric company must estimate the delivered cost of qualifying electricity for each year over the time horizon." In this example, the time horizon is 2015 through 2019. This is how PGE estimated its 2015 incremental cost of compliance, that is, by estimating delivered cost of qualifying electricity and then levelizing the cost and comparing it to the corresponding levelized delivered cost of the proxy plant.

While PGE believes it is compliant with both rule and statute, we agree that a review of the rules would be beneficial as the results of the calculation may not capture the true incremental costs of complying with Oregon's RPS requirements. PGE notes that OAR 860-083-0400 describes, in prescriptive detail, how to calculate the incremental cost. For instance, the rules state that the levelized cost of a renewable resource is compared to a proxy Combined Cycle Combustion Turbine (CCCT), but gas prices are updated for the CCCT in each RPIP. Therefore the renewable resource is compared to a proxy with updated gas prices. In addition, actual generation is updated with each RPIP. In future years, adjusting the resource actuals effectively amounts to hindsight review of the cost-effectiveness of the resource decision, rather than a review based on the information known at the time. If renewable resources continue to be compared to a proxy resource in the increment cost calculation, PGE believes the renewable resource should be compared to a proxy CCCT using construction and fuel assumptions that existed at that time. PGE believes the current calculation produces a result that is not informative regarding the incremental cost of providing renewables resources in lieu of gas plants. PGE is open to exploring these issues with Staff and other parties

B. Use of Unbundled RECs

ICNU recommends that PGE purchase the maximum amount of unbundled RECs it can use within the five-year banking limitation period imposed by SB 1547 and incorporate unbundled RECs into its RPS compliance.

It is important that PGE be able to assess the market and the financial feasibility of using unbundled RECs in any particular year. Should opportunities continue to avail themselves in the REC market, PGE will continue to act appropriately to balance risks and expected costs.

However, PGE believes that, on a long-term basis, reliance on an illiquid unbundled REC marketplace is not a prudent RPS compliance strategy. PGE expects increasing uncertainty in REC markets due to increasing RPS requirements in states across the Western Electricity Coordinating Council (WECC) region. It may not prove to be cost effective to meet RPS requirements with unbundled RECs if there were a requirement to use 20% unbundled RECs. If the sellers are aware of a requirement, REC prices are likely to be higher.

DATED this 15th day of August, 2016.

Respectfully submitted,

Patrick G. Hager
Manager, Regulatory Affairs
Portland General Electric Company
121 SW Salmon St., 1WTC0306
Portland, OR 97204
(503) 464-7580 Telephone
(503) 464-7651 Fax
patrick.hager@pgn.com