BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1914

In the Matter of PacifiCorp, dba Pacific Power, 2019-2023 Renewable Portfolio Standard Implementation Plan	Staff's Initial Comments

Staff of the Public Utility Commission of Oregon (Staff) presents its initial comments on PacifiCorp's (PAC or Company) 2019-2023 Renewable Portfolio Standard Implementation Plan (RPIP). These initial comments present a review of the responsiveness of PAC's RPIP to the requirements found in OAR 860-083-0400 and ORS 469A.075, which require "a forecast of the expected incremental costs of new qualifying electricity for facilities or contracts planned for first operation in the compliance year," and to the conditions found in Order No. 17-010, wherein the Commission acknowledged PacifiCorp's 2017-2021 RPIP.[1]

PacifiCorp's 2019-2023 RPS Implementation Plan

Staff appreciates the quality and clarity of PAC's RPIP analysis. PacifiCorp estimated its incremental costs of compliance, and has not developed a resource procurement action for RPS compliance that is materially different than its recently acknowledged 2017 IRP. The estimates of levelized incremental costs, displayed below, are generated by taking an average dollars per megawatt hour weighted by the number of forecasted RECs, and comparing those values to the costs associated with production that otherwise would have been from a proxy natural gas generation facility. All figures represent nominal thousands. These costs are far below the 4 percent cost threshold found in OAR 469A.100(1). PacifiCorp included a sensitivity based on the new corporate tax rate, which increases its average bundled levelized costs by 76 percent. These values are presented in Table 1.

[1] OAR 860-083-0400(2)(d).

Table 1: Levelized Incremental Cost Estimates

Year	Annual RR	4% of RR	Levalized Incremental Costs Bundled	Unbundled	Total	New Tax	% of OR RR	Tax: % of RR
2019	$1,254,282	$50,571	$2,093	$100	$2,194	$3,580	0.17%	0.29%
2020	$1,244,705	$49,788	$1,979	$100	$2,079	$4,134	0.17%	0.34%
2021	$1,238,251	$49,530	($10,884)	$100	($10,784)	($7,251)	-0.87%	-0.58%
2022	$1,236,368	$49,455	($14,421)	$100	($14,322)	($9,581)	-1.16%	-0.77%
2023	$1,236,079	$49,443	($14,557)	$99	($14,457)	($9,753)	-1.17%	-0.78%

While Staff appreciates PAC's efforts to rapidly prepare a sensitivity analysis of the tax code changes to the Company's incremental costs, Staff is unclear how much more time and analysis will be needed to fully account for the impact of this change.

During its 2015 RPIP (UM 1681), Staff stipulated that PAC model the utilization of its full allotment (20% of total) of unbundled RECs.[2] These cost estimates, shown in Table 2, are significantly lower, which potentially signifies that PacifiCorp has a lower-cost option available for RPS compliance.

Table 2: Levelized Incremental Cost Estimates Maximizing Unbundled REC Purchases

	Levalized Incremental Costs				Percentage Difference from Base		
Year	Bundled	Unbundled	Total	% of OR RR	Bundled	Unbundled	Total
2019	$1,756	$355	$2,111	0.17%	-16.10%	355.00%	**-3.78%**
2020	$1,253	$471	$1,723	0.14%	-36.69%	471.00%	**-17.12%**
2021	($8,707)	$468	($8,239)	-0.67%	-20.00%	468.00%	**-23.60%**
2022	($11,537)	$468	($11,069)	-0.90%	-20.00%	468.00%	**-22.71%**
2023	($11,645)	$469	($11,176)	-0.90%	-20.00%	473.74%	**-22.69%**

PacifiCorp justifies its aversion to this strategy with two main points. First, it argues there exists a risk that shorter-lived bundled RECs would expire under this path, imposing additional costs to the Company than displayed below. Second, PacifiCorp argues these estimates are sensitive to the price assumed for these unbundled RECs, which are variable and merely forecasted. If demand for unbundled RECs increases significantly in the next five years (from, for example, the linking of Oregon with California's Cap and Trade program or any other unforeseen legislative change), ratepayers could bear those higher costs.

While appreciating those concerns, Staff remains skeptical that unbundled RECs will not be a significant part of PacifiCorp's compliance retirements going forward. As shown in Table 3, PAC utilized the highest amount possible (20% of total) of unbundled REC retirements in 2012-2014. After the increase in RPS requirements in 2015 the percent of unbundled REC's dropped, however these unbundled RECs still represent more than half of the permissible allotment.

[2] UM 1681 - Stipulation at 5, (June 17, 2014).

Table 3: Bundled versus Unbundled REC Retirements, 2012-2016

RECs Retired	2012	2013	2014	2015	2016
Unbundled	127,788	130,899	129,587	211,726	245,118
Bundled	511,152	523,600	518,350	1,717,643	1,930,346
Total	638,940	654,499	647,937	1,929,369	2,175,464
Maximum Unbundled	127,788	130,900	129,587	385,874	435,093
% of Cap Utilized	**100%**	**100%**	**100%**	**55%**	**56%**

Both PAC and Staff understand the treatment of unbundled RECs in RPS implementation planning will be considered under the AR 610 RPS rulemaking proceeding. Staff finds it relevant to restate its concern in its comments and notes that these overarching RPS compliance issues will be best addressed comprehensively with PAC and other stakeholders in the upcoming RPS rulemaking docket.

Order No. 17-010 Requirements

The Commission's acknowledgement of PacifiCorp's 2017-2021 RPIP (UM 1790) came with two conditions, described below with Staff's comments:[3]

Condition (1):

> *PacifiCorp must comply with the following steps when it commences a resource procurement action, for the purpose of complying with the Renewable Portfolio Standards (RPS) law, that materially deviates from its most recently filed Integrated Resource Plan or RPIP:*
>
> - *Calculate new incremental costs with the new resource or resources included over a time period acceptable to PacifiCorp and Staff; and*
>
> - *Respond to requests by the Commission regarding its new analysis arising out of the calculation set forth above*

Staff believes PacifiCorp satisfied this condition with its RPIP filing. PAC, accurately and transparently calculated new incremental compliance costs while also responding to all data requests from Staff.

Condition (2):

> *Participate in a stakeholder workshop to identify opportunities for revisions to the RPIP process and requirements*

Staff believes PacifiCorp satisfied this condition by its participation in the AR 610 kick-off workshop on January 10, 2018 and forthcoming RPS rulemaking dockets. PacifiCorp has been an active participant to date during the informal phase of these proceedings.

[3] *In re PacifiCorp*, OPUC Docket No. UM 1790, Order No. 17-010, at 1 (Jan. 13, 2017).

Ongoing Concerns

Staff finds that what was initially filed by PAC in December to be a transparent and accurate accounting of its five-year RPS compliance plan. However, as also discussed in PacifiCorp's recent RPIPs, a number of outstanding RPS compliance issues remain.

First, as mentioned above, Staff is concerned about utilities' reluctance to incorporate the use of unbundled RECs in RPS implementation planning, when the data clearly demonstrate that PAC (and PGE) uses unbundled RECs as a significant part of their compliance strategy. Staff questions the value of an RPS implementation planning process that is unlikely to reflect utilities' actual compliance behavior. Further, the incremental cost estimates generated by this strategy likely overestimates incremental costs of compliance, which prevents the Commission from adequately monitoring the 4% threshold. This will be of increasing concern as RPS targets escalate.

This unbundled REC issue is one component of a larger concern about utilities' REC banking and utilization strategy. Based in part on RPIP format issues described below, the current RPIP format does not allow the Commission to properly evaluate the long-term cost and risk strategy of utilities' use of banked and unbundled RECs for compliance. Utilities may present REC retirement and banking strategies that comply with the current RPIP legislation and guidelines, but do not reflect a long-term least-cost, least-risk strategy.

Second, the calculation of the incremental cost of bundled RECs as prescribed by OAR 860-083-0100 occurs at the time of the retirement, rather than the year that megawatt-hour was generated. In other words, ratepayers are paying for a renewable facility's generation in 2018, but that cost is only reflected in the 2018 incremental costs if the REC is retired in 2018. With the repeal of first-in-first out requirements and the introduction of Golden RECs, that 2018 REC may not be retired for many years in the future. The disconnect between the time ratepayers incur costs and the time the costs are calculated for compliance makes it difficult to accurately assess whether a utility has exceeded the 4% threshold. This difficulty will increase as utilities develop facilities that generate Golden RECs and as RPS compliance targets escalate.

Third, Staff is concerned that the format of the RPIP is limited in its ability to convey a robust compliance strategy. For example, both the timing and the five-year compliance period of the RPIP limit its usefulness. Each utility's IRP must be filed two years after the previous IRP's acknowledgement, but the every other year RPIP requirement limits the amount of relevant information presented in the filing. Additionally, the RPIP's five-year outlook does not address longer-term compliance strategy. This concern is exacerbated by the removal of the first-in-first-out requirement and the introduction of Golden RECs, for which utilities have a disincentive retire within 5 years of generation. If the purpose of the RPIP is to evaluate the costs of RPS compliance, its value is further limited with no longer term strategy included.

Staff believes that addressing these concerns is critical to providing accurate and meaningful RPS compliance cost estimates. However these issues are not specific to

PAC's 2019 – 2023 RPIP and are best addressed with all utilities and stakeholders in the context of the on-going RPS rulemaking proceedings.

Conclusion
Staff finds that PAC has sufficiently met the minimum requirements of the current RPIP, including compliance with Order 17-010 requirements.

This concludes Staff's Initial Comments.

Dated at Salem, Oregon, this 5th day of March, 2018.

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