

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 25, 2012

REGULAR X CONSENT _____ EFFECTIVE DATE Upon
Commission Approval

DATE: September 17, 2012

TO: Public Utility Commission

FROM: Erik Colville

THROUGH: Jason Eisdorfer and Maury Galbraith

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: Establish the Alternative Compliance Payment Rate for 2014 Pursuant to ORS 469A.180.

STAFF RECOMMENDATION:

Staff recommends the Commission adopt a renewable portfolio standard (RPS) alternative compliance payment (ACP) rate of \$110 per megawatt-hour (MWh) for 2014 and 2015 for Portland General Electric (PGE), PacifiCorp, and all electricity service suppliers (ESS).

DISCUSSION:

Under ORS 469A.180, an electric company or an ESS may elect to comply with the RPS by making an ACP. Under ORS 469A.180(1), the Commission shall establish the ACP rate in dollars per MWh.

Under ORS 469A.180(2):

"In establishing an alternative compliance rate, the commission shall set the rate to provide adequate incentive for the electric company or electricity service supplier to purchase or generate qualifying electricity in lieu of using alternative compliance payments to meet the renewable portfolio standard applicable to the company or supplier."

Further under ORS 469A.180(2), Commission considerations to set the ACP rate must include:

“the cost of qualifying electricity, contracts that the electric company or electricity service supplier has acquired for future delivery of qualifying electricity and the number of unbundled renewable energy certificates that the company or supplier anticipates using in the compliance year to meet the renewable portfolio standard applicable to the company or supplier.”

OAR 860-083-0500(1) requires that no later than October 1 of even-numbered calendar years the Commission will set an ACP for the next even-numbered compliance year and the following odd-numbered year. As a result, the ACP recommended in this Staff Report is for 2014 and 2015. The ACP for 2013 will remain at \$50 per MWh.

The ACP is intended to incent the electric company or ESS to purchase or generate qualifying electricity in lieu of using ACPs to meet the renewable portfolio standard. Like the ACP rate set in 2010, the rate set in 2012 may be perceived as a precedent. Staff recommends that the Commission set the rate at the lowest rate needed to incent the utilities and ESSs to purchase or generate qualifying electricity. Below are some considerations on how high a future ACP rate might need to be.

- Based on the 2011 RPS Compliance Reports, the cost of unbundled renewable energy certificates (REC) ranged from \$0.70 to \$5.00 per MWh. An unbundled REC represents the environmental attributes of the underlying power that is generated but is purchased separately from the power. According to PGE’s 2009 IRP Update, the unbundled REC market is currently fragmented and lacks liquidity or transparency. Because of this market condition, Staff does not recommend using unbundled REC prices to guide setting of the ACP for 2014.
- The PacifiCorp 2011 Integrated Resource Plan (IRP) Update included market electricity price forecasts for the Mid-Columbia and Palo Verde trading hubs. For 2014 and 2015, the average price at Mid-Columbia is \$42 per MWh while the average price at Palo Verde it is \$48 per MWh.
- The Energy Information Administration (EIA) Energy Outlook 2012 includes estimates of the average levelized costs for generation facilities entering service in 2017. The costs are presented in 2010 dollars per MWh without continued tax credits. The costs for selected resource technologies are summarized in the table below.

Resource Technology	2010 \$/MWh	2014 \$/MWh ¹
Natural Gas Combined Cycle Combustion Turbine	68.60	74.25
Wind	96.80	104.78
Solar PV	156.90	169.83

- PacifiCorp's 2011 IRP includes estimates of the average levelized costs for generation facilities entering service in 2017. The costs are presented in 2010 dollars per MWh without continued tax credits. The costs for selected resource technologies are summarized in the table below.

Resource Technology	2010 \$/MWh	2014 \$/MWh ²
Natural Gas Combined Cycle Combustion Turbine	66-74	71.44-80.10
Wind	82-102	88.76-110.41 ³
Solar PV	255	276

- PGE's 2009 IRP includes estimates of the average levelized costs for new Northwest wind resources of \$100 per MWh, in 2009 dollars, including expected incentives. In 2014 dollars this would be \$110.41 per MWh⁴.

Based on the estimated cost of new wind resources, an ACP rate of \$110 per MWh is likely the lowest rate needed to incent electric companies and ESSs to purchase or generate qualifying electricity. This is the primary criterion for setting the ACP rate in ORS 469A.180(2).

PROPOSED COMMISSION MOTION:

The alternative compliance payment rate of \$110 per MWh for 2014 and 2015 for Portland General Electric, PacifiCorp, and all electricity service suppliers, be adopted pursuant to ORS 469A.180.

¹ Using a two percent annual inflation rate.

² Using a two percent annual inflation rate.

³ The impact of continued tax credits is reported as a reduction of roughly \$20/MWhr.

⁴ Using a two percent annual inflation rate.