

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 20, 2022**

REGULAR _____ CONSENT X EFFECTIVE DATE Upon Commission Approval

DATE: September 12, 2022

TO: Public Utility Commission

FROM: Curtis Dlouhy

THROUGH: Bryan Conway, Caroline Moore, and Scott Gibbens **SIGNED**

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1432).
Establish the Alternative Compliance Payment Rate for 2024 and 2025 Pursuant to ORS 469A.180.

STAFF RECOMMENDATION:

Staff recommends the Commission adopt a renewable portfolio standard (RPS) alternative compliance payment (ACP) rate of \$60 for PacifiCorp and \$85 per MWh for Portland General Electric (PGE) in 2024 and 2025 pursuant to ORS 469A.180, and use the weighting methodology in OAR 860-083-0500(6)(b) for all electric service suppliers (ESSs).

Staff further recommends that the Commission waive the timing requirements in OAR 860-083-0500(1) and adopt the 2024 and 2025 rates as the ACP rates for 2022 and 2023 after adjusting for inflation, resulting in \$57 per MWh for PacifiCorp and \$81 per MWh for PGE.

DISCUSSION:

Issue

Whether to adopt the proposed RPS ACP rates in this memo for 2024 and 2025:

- \$60 per MWh for PacifiCorp
- \$85 per MWh for PGE

Whether to waive the timing requirements for setting an ACP under OAR 860-083-0500(1) and set the proposed RPS ACP rates for 2024 and 2025 for 2022 and 2023 after adjusting for inflation:

- \$57 per MWh for PacifiCorp
- \$81 per MWh for PGE

Applicable Law

Under Oregon Revised Statute (ORS) 469A.180(3), an electric company or an ESS may elect to comply with the RPS by making an ACP or the commission may require the use of ACPs. Under ORS 469A.180(1), the Commission shall establish the ACP rate in dollars per MWh for each electric company or electric service supplier for each compliance year.

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:

[T]he 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.

Additional factors are set forth in Oregon Administrative Rules (OAR) 860-083-0500(2), (3).

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 primary ACP rates recommended in this Staff Report are for 2024 and 2025.

OAR 860-083-0500(6)(a) states that the ACP rate for an ESS will be the weighted average of the ACP rates for the electric companies subject to ORS 469A.052 in whose

service area they supply electricity. OAR 860-083-0500(6)(b) states that this weighted average will be based on the retail sales in megawatt hours (MWh) by the ESS in each electric company service area for the year prior to the applicable compliance year.

OAR 860-083-0005(2) states:

Upon request or its own motion, the Commission may waive any of the Division 083 rules for good cause shown. A request for waiver must be made in writing, unless otherwise allowed by the Commission.

Background

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. 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. Unlike past updates to the ACP, Staff recommends setting a separate rate for PacifiCorp and PGE based on its interpretation of ORS 469A.180(2) and its practice of setting the lowest rate needed to incent RPS compliance. Below are some considerations on determining the respective ACP rates:

- PGE's 2019 Integrated Resource Plan (IRP): PGE's 2019 IRP in LC 73 presents the average levelized cost of energy (LCOE) of wind resources coming online at various locations and solar resources in 2024 and 2025.¹ These values are presented in 2020 dollars per MWh.
- PacifiCorp's 2021 IRP: PacifiCorp presents the LCOE of individual projects in its 2021 IRP in LC 77, also presented in 2020 dollars per MWh. Staff aggregated the levelized costs of these projects absent any production tax credits (PTCs) or investment tax credits (ITCs) separately for wind and solar.
- Actual and Expected Inflation Rates: Staff adjusts the LCOEs presented by PacifiCorp and PGE upward to reflect actual inflation that has occurred since 2020 and forward-looking inflation expectations between 2022 and 2024, when the ACP rate is applicable. According to data compiled by the St. Louis Federal Reserve Economic Data (FRED) from the Bureau of Labor Statistics, actual inflation between January 2020 and June 2022 was approximately 14.16 percent based on the Consumer Price Index.² According to its Summary of Economic Projections released on June 15, 2022, the Federal Reserve's median inflation estimate is

¹ Page 161 of this [document](#).

² Found [here](#).

2.6 percent in 2023 and 2.2 percent in 2024. Compounding these numbers with the 14.16 percent actual inflation experienced through June 2022 yields an inflation rate of 19.7 percent between 2020 and 2024. LCOE values presented in 2020 \$/MWh found in PacifiCorp's and PGE's IRPs have been adjusted upwards by 14.16 percent for the recommended 2022-2023 ACP rate and 19.7 percent for the 2024-2025 ACP rate.

Table 1 shows the ACP rates from 2012 to 2019.

Table 1: Past ACP Rates

Date Set	Rate \$/MWh	Year Applied
1-Oct-10	\$50	2012-2013
1-Oct-12	\$110	2014-15
21-Jul-15	\$110	2016-17
1-Oct-16	\$90	2018-19

To Staff's knowledge, the use of ACPs has not been reported to date in RPS compliance reporting.

As discussed previously, Staff believes that the original intent of the ACP rate was to set a separate rate for PacifiCorp, PGE, and ESSs in Oregon and recommends the Commission adopt this practice going forward. In particular, Staff believes this is the case because ORS 469A.180(2) states "the commission shall set the rate to provide adequate incentive for **the** electric company or electricity service supplier" rather than "**an** electric company..." Further, the presence of OAR 860-083-0500(6) outlines the process by which an ESS determines its rate based off the separate rates set for each of the IOUs, indicating to Staff that there was not an expectation of a uniform ACP rate.

Table 2 shows Staff's recommended ACP rates for PacifiCorp and PGE compared to its solar and wind LCOE from their most recent IRPs:

Table 2: Proposed ACP Rates for 2022-2025 and Underlying LCOEs

	Proposed 2022/2023 ACP Price (\$/MWh)	Proposed 2024/2025 ACP Price (\$/MWh)	Wind LCOE (2020 \$/MWh)	Solar LCOE (2020 \$/MWh)
PacifiCorp	57	60	48	49
PGE	81	85	60	70

It should be pointed out that the proposed prices are significantly lower than previous years owing to the large decrease in costs to acquire renewable energy in recent years.

OAR 860-083-0500(6) states that the rate set for all other ESSs should be weighted average of the rates set for PacifiCorp and PGE, and that the weights should be derived from the percentage of electricity sold by the ESS in each of the two utilities' service territory in the previous compliance year. Therefore, the exact rates for each ESS are not yet known for 2022, 2023, 2024, or 2025 and could vary between entities based on future electricity sales. However, ESSs will face an ACP rate between \$57 and \$81 for the 2022 and 2023 compliance years, and \$60 and \$85 for the 2024 and 2025 compliance years, should Staff's recommendation be adopted.

Staff Outreach

Staff thought it necessary to reach out to the various ESSs and IOUs in Oregon to let them all know that the RPS ACP rate would be updated for the first time since 2016. Staff released a straw proposal on July 29, 2022, held a workshop to discuss its proposed ACP rates on August 3, 2022, and had a comment deadline of August 12, 2022. While some ESSs showed up to the workshop, neither PacifiCorp nor PGE were present, and Staff later learned that the docket service list was functionally empty. This is likely due to the time that has passed since the last ACP update. Staff then met with PacifiCorp and PGE to explain its updates, its rationale for creating separate rates, and allowed these two entities to submit comments past this deadline.

While no entity submitted comments, it was pointed out that the ESS ACP rate should be the weighted average of the IOUs' ACP rates, and not the dedicate ESS rate initially proposed that was based on the EIA energy outlook. As such, Staff's final recommendation for the ESS ACP rate differs than the ESS ACP rate discussed in its straw proposal. Since then, Staff has also thought it more appropriate to adjust its recommended 2022 and 2023 rates downward for inflation.

Conclusion

Based on the survey of estimated costs of new resources, it appears that ACP rates just above the higher solar price for PGE, the higher wind price for PacifiCorp, and a yet-to-be-determined blend of these rates for all other ESSs are 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). Assessing the prices in the survey, after accounting for estimation error and adjusting to 2024 dollars, it appears that a rate of \$60 for PacifiCorp, \$85 for PGE, and a blend of these rates based on electricity sold for all other ESSs would be a reasonable estimate of the needed ACP.

Staff therefore recommends that these ACP rates be adopted for pursuant to ORS 469A.180 for 2024 and 2025 for PacifiCorp and PGE and the methodology outlined in OAR 860-083-0500(6) be adopted for all other ESSs.

Staff further recommends that rates of \$57 for PacifiCorp and \$81 for PGE, and methodologies be adopted for 2022 and 2023 in lieu of the \$90 rate that has not been updated since 2016. This lower rate reflects the LCOEs presented in this memo but removing expected inflation in 2023 and 2024 used to calculate the 2024 and 2025 ACP rates. Staff believes that there is good cause shown to use its recommended rate pursuant to OAR 860-083-0005(2).

PROPOSED COMMISSION MOTION:

Adopt an RPS ACP rate of \$60 for PacifiCorp and \$85 per MWh for PGE in 2024 and 2025 pursuant to ORS 469A.180, and apply these rates for use in the weighting methodology in OAR 860-083-0500(6)(b) for electric service suppliers.

Waive the timing requirements for setting an ACP under OAR 860-083-0500(1) and set the proposed RPS ACP rates for 2024 and 2025 after adjusting for inflation for 2022 and 2023:

- \$57 per MWh for PacifiCorp
- \$81 per MWh for PGE