

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 23, 2015

REGULAR CONSENT _____ EFFECTIVE DATE June 30, 2015

DATE: June 15, 2015

TO: Public Utility Commission

FROM: Brittany Andrus *BA*

THROUGH: *BA for JE* Jason Eisdorfer and *AA* Aster Adams

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1728) Updates
Qualifying Facilities Avoided Cost Payments, Schedule 201.

STAFF RECOMMENDATION:

Staff recommends that the Commission direct Portland General Electric (PGE) to refile Schedule 201 with the avoided costs recalculated based on the cost of capital used in its current Schedule 201.

DISCUSSION:

Issue

Under Order No. 14-058, utilities update their standard avoided cost prices on May 1 of every year. In this memorandum, Staff reviews PGE's updated standard renewable and non-renewable avoided cost prices.

Applicable Orders

On February 24, 2014, the Commission issued Order No. 14-058 in Phase I of its Investigation into Qualifying Facilities Contracting and Pricing (Docket No. UM 1610) resolving several disputed issues. One resolved issue was the "Schedule for Avoided Cost Updates." The Commission stated,

[a]fter reviewing the parties' proposals, we adopt a new requirement for an annual update on a specific day each year, in addition to the current complete avoided cost update following each IRP [Integrated Resource Plan]

acknowledgement order. We direct electric utilities to update their avoided cost rates 30 days after IRP acknowledgement, and on May 1 every year. In the event that an IRP is acknowledged within 60 days of May 1 in a particular year, the Commission will use its discretion at that time to direct a utility to waive its 30-day post IRP update.

Annual updates, filed every May 1, will include the following four factors:

- (1) Updated natural gas prices;
- (2) On- and off-peak forward-looking electricity market prices;
- (3) Changes to the status of the Production Tax Credit; and
- (4) Any other action or change in an acknowledged IRP update relevant to the calculation of avoided costs.

Electric utilities' annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing.¹

The Commission later clarified that the May 1 updates would not begin in 2014 because compliance filings that included updates to avoided costs were required within 60 days of the issuance of Order No. 14-058.² Therefore, 2015 is the first year of annual May 1 avoided cost updates from the three electric utilities.

Background

PGE's current standard avoided costs were filed on May 30, 2014. Parties participated in a series of workshops to resolve disputed issues, and a revised Schedule 201 was approved by the Commission effective December 17, 2014.³ In accordance with Order No. 14-058, Schedule 201 now contains both non-renewable and renewable avoided cost prices, each for three types of resources with varying contributions to peak load: baseload, wind, and solar.

The avoided cost prices in PGE's May 1, 2015 filing incorporate updated natural gas price and forward market electricity prices, and a decrease to the Company's cost of capital. PGE did not change its assumption regarding the Production Tax Credit.

Analysis

The avoided cost prices as filed are significantly lower than those currently in place, primarily due to lower natural gas prices, which in turn impact forward market electricity

¹ Order No. 14-058 at 25-26.

² Order No. 14-114.

³ Order No. 14-435.

prices. During PGE’s sufficiency periods (through 2019 for renewable, and 2020 for non-renewable), standard avoided cost prices are set at the market price. Lower gas prices also result in reduced prices during the deficiency period for non-renewable avoided costs, which are based on the fixed and variable costs of a combined cycle combustion turbine.

Staff calculated the levelized costs for the current and proposed standard avoided cost prices for two of the six price streams⁴ in Schedule 201, non-renewable baseload and renewable baseload, to illustrate the impact of the proposed changes. The prices below represent the fixed payment streams of the on- and off-peak prices for 15 years, levelized at the Company’s authorized rate of return, for the period 2016 through 2030.

	Non-renewable Baseload	Renewable Baseload
Current Schedule 201	\$59.16	\$84.99
Proposed Schedule 201	\$51.11	\$79.35
Change	-13.6%	-6.6%

On May 27, 2015, Staff notified the parties in Docket No. UM 1610 that the May 1 updates had been filed, that Staff intended to place the filings on the June 23, 2015 public meeting agenda, and that comments could be filed. On June 4, 2015, Renewable Energy Coalition (REC) filed comments regarding the three avoided cost updates, and Community Renewable Energy Association (CREA) filed comments specific to PGE.

REC objects to PGE’s requested effective date of June 1, 2015, explaining that Order No. 14-058 states, the “utilities’ annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing.” REC recommends that the Commission clarify that the annual updates to avoided costs will be effective 60 days from May 1 each year.

Both REC and CREA object to PGE’s update of an item that is not specified in the list of May 1 update components contained in Order No. 14-058. PGE’s filing states that in addition to updated gas forecasts and forward electricity prices, “PGE’s cost of capital

⁴ The six standard avoided cost price streams are: 1) non-renewable baseload, 2) non-renewable wind, 3) non-renewable solar, 4) renewable baseload, 5) renewable wind, and 6) renewable solar.

(debt and equity) has decreased relative to the previous filing, reducing both Standard and Renewable Avoided Costs during the deficiency period.”⁵

Staff agrees with REC and CREA that the cost of capital update is beyond the scope of the May 1 avoided cost updates. Staff’s calculations show that this change results in an approximately 0.2 percent reduction in the avoided costs. However, even if there was zero financial impact, Staff believes that the inclusion of any factor beyond the four specified by the Commission in Order No. 14-058 would open the door for any other kinds of updates a utility might choose to include. Staff agrees with REC that one of the main goals supported by annual updates is a predictable, streamlined process that allows for timely avoided cost updates with limited controversy and disputes. For this reason, Staff recommends that the Commission direct PGE to remove the cost of capital update from its avoided cost calculations.

With respect to the clarification regarding the effective date 60 days from the filing, Staff has consulted with PGE regarding effective dates for the May 1 annual updates going forward, and does not believe action from the Commission is needed at this time.

Staff’s review of PGE’s inputs to and calculations of the updated avoided costs did not identify any concerns beyond the cost of capital update. Staff concludes that the filing does not meet the requirements contained in Order No. 14-058 because the Company included a change to an item that is outside the scope of those allowed in that order. Staff recommends that the Commission direct PGE to revise Schedule 201 to restore the cost of capital to the level used in the current avoided costs and to refile it. Staff recommends that this change be submitted as a compliance filing, subject to Staff review, and anticipates that the review can be completed within one working day after the revised filing.

PROPOSED COMMISSION MOTION:

PGE’s Application to Update Schedule 201 Qualifying Facility Information be revised to remove the update to cost of capital, and be refiled, reviewed by Staff, and become effective if found compliant to Order No. 14-058.

⁵ UM 1728, Application to Update Schedule 201 Qualifying Facility Information, May 1, 2015, at 1.