

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 7, 2016

REGULAR X CONSENT EFFECTIVE DATE June 22, 2016

DATE: June 2, 2016

TO: Public Utility Commission

FROM: Brittany Andrus 

THROUGH:  Jason Eisdorfer and Michael Dougherty 

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

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order approving Portland General Electric's (PGE) Schedule 201 effective June 22, 2016, as requested in the filing.

DISCUSSION:

Issue

Whether the Commission should approve PGE's proposed annual update to its avoided cost prices and if so, whether the Commission should make the updated prices effective June 22, 2016.

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] acknowledgment 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

Background

PGE's current standard avoided costs became effective on September 23, 2015. The avoided cost prices in PGE's April 29, 2016, filing incorporate three of the factors applicable to May 1 annual updates: updated natural gas prices, updated forward market electricity prices, and a change to the status of the Production Tax Credit.

Discussion and Analysis

The avoided cost prices filed on April 29 are lower than those currently in place. Lower forward market electricity prices lower sufficiency period prices for both nonrenewable and renewable avoided cost price stream. The extension of the Production Tax Credit lowers renewable avoided cost prices during the deficiency period beginning in 2020. Lower gas prices impact nonrenewable avoided cost prices during the deficiency period, which starts in 2021.

Staff estimated the 15-year levelized prices under the current and proposed schedules for a baseload resource. The nonrenewable levelized price decreases from \$51.12 per megawatt-hour (MWh) to \$43.70. Renewable levelized prices are reduced from \$68.68 per MWh to \$57.76.

On May 25, 2016, Staff notified the parties in Docket No. UM 1610 that the annual update had been filed and that Staff intended to place the filings on the June 7, 2016 public meeting agenda. Comments were filed by Wellons, Inc. (Wellons), on May 27, 2016. Comments were received on May 31, 2016, from Renewable Energy Coalition

¹ Order No. 14-058 at 25-26.

(the Coalition), and Obsidian Renewables, LLC (Obsidian). These three sets of comments are summarized briefly below.

Stakeholder comments

Wellons plans to develop two wood-fired cogeneration projects, and is in the process of obtaining standard renewable power purchase agreements (PPAs) with PGE. PGE must provide final, executable PPAs to Wellons by June 14, 2016, according to the timelines in PGE's Schedule 201. Wellons has planned its projects based on the renewable avoided costs currently in place, anticipating that new prices would likely be effective on June 22, 2016, which is the day following the last public meeting scheduled within the 60-day period established in Order No. 14-058.

When the June 21, 2016, public meeting was cancelled and PGE's proposed avoided cost filing moved to the June 7, 2016, public meeting, Wellons believes that is exposed to the possibility of an earlier avoided cost price effective date. Wellons notes that until the cancellation of the June 21, 2016, meeting, it did not believe the avoided cost prices filed on April 29, 2016, could be applicable to Wellons and therefore, Wellons did not review the newly avoided cost prices or challenge them. Wellons states that it would be unfair to take action that makes these recently filed prices applicable to Wellons at this late date. Instead, Wellons believes it is appropriate for the Commission to make the April 29, 2016, prices effective on the date specified in PGE's April 29, 2016, filing, which is June 22, 2015.

The Coalition also advocates for a June 22, 2016, effective date. The Coalition describes the process that established effective dates for the Idaho Power and PacifiCorp May 1 updates in 2015, which was the first year in which annual updates occurred. For those annual updates, Staff recommended effective dates of June 30 and July 1, 2015, respectively. However, the Commission ordered that the prices be made effective be June 24, 2015, the day after the public meeting in which Staff presented its recommendation. The Coalition explains that in the absence of a fixed date, it is a "reasonable assumption" that for 2016, the Idaho Power and PGE updates would be addressed at the June 21, 2016, public meeting and that if approved, would be made effective the day after the public meeting.

In addition, citing the importance of "predictability in the timing of avoided cost rate changes," the Coalition explains its past support for establishing "a specific date that allows sufficient time for staff and interested parties to review the filing, and QFs to plan their contract negotiation process to finish before rates change." The Coalition "...re-iterates its request that the Commission set a specific date or other certain time period for when avoided cost rates will go into effect after an annual May update."

Obsidian objects to approval of the updated avoided cost prices, even with an effective date of June 22, 2016, stating that the Commission “should defer implementation of PGE’s proposed changes to: (i) allow parties and Commission Staff reasonable time to understand and verify the very complicated cost inputs used in PGE’s filing; and (ii) avoid multiple and piecemeal modifications to PGE’s avoided cost rates over the next few months.”

With respect to the avoided cost inputs, Obsidian questions the sources for the lower gas and electricity market prices employed in the filing. Obsidian is concerned the inputs are from PGE’s recent unacknowledged IRP update and may not provide a sufficient basis for the inputs. Obsidian also cites concerns with the inclusion of a Production Tax Credit (PTC) at the 60 percent level, rather than at the 20 percent that will be in place during 2020. Obsidian requests that the Commission direct PGE to hold a workshop to explain the “inputs, assumptions and calculations behind its proposed avoided costs updates...and defer action on PGE’s proposed changes to Schedule 201 until after such workshop.”

Regarding the “piecemeal modifications,” Obsidian explains that it would be inefficient to allow avoided costs in this filing to go into effect when two upcoming revisions to avoided costs are required in the near future. First, utilities will update avoided costs pursuant to certain requirements of Order No. 16-174, due within 60 days of the May 13, 2016, issuance date. Second, Obsidian notes that any changes resulting from Senate Bill 1547 have not been accounted for in this filing, and that PGE has stated it will include them in its 2016 IRP filing later this year.

Obsidian states that any potential change to the renewable resource deficiency period that may result from this analysis would also necessitate a change to avoided costs. Obsidian states, “[r]ather than submitting sequential filings over the course of the next year, the Commission should direct PGE to make a single comprehensive filing that fully addresses the changes to forward gas and electricity prices, the PTC, Order 16-174 and SB 1547.”

Staff’s response to stakeholder concerns

On the issue of the effective date of this filing, PGE’s filing explains its requested effective date: “The last public meeting within 60 days of May 1 is on June 21, 2016; hence the Company requests an effective date of June 22, 2016. Staff understands the concern voiced by Wellons and Coalition that cancellation of the June 21, 2016, public meeting date creates some ambiguity about the effective date of PGE’s filings if approved. Staff agrees with Wellons and the Coalition that the avoided cost update

should be allowed to go into effect on June 22, 2016, for the reasons stated by Wellons and the Coalition. This recommendation, if adopted, would resolve the objections raised by Wellons and the Coalition.

With respect to Obsidian's comments, Staff does not share Obsidian's concern regarding the forward market prices. The fact the inputs may be obtained from PGE's unacknowledged IRP is not material. Order 14-058 requires that utilities file avoided cost prices with updated market prices and natural gas prices be updated on May 1. Order No. 14-058 does not require the updates be based on an acknowledged IRP or IRP update.

Obsidian objects to PGE's assumptions regarding PTCs, stating, "[i]n 2020 the PTCs are only 20% and not 60%. Order 14-058 states that PGE is to use the law on PTCs then in effect. PGE is apparently making assumptions that projects coming online after 2020 have "grandfathered" most of their PTC, an assumption not covered by the proceedings in UM 1610 nor adequately explained by PGE."

Staff disagrees with Obsidian's arguments regarding the PTC assumptions. PGE's current IRP reflects that it is deficient in 2020 and assumes it will construct a resource to meet that deficiency. In order to have a facility online in 2020 to meet the deficiency, PGE assumes that it would have to commit to the project in 2018. If PGE assumed it would until 2020 to commence construction, it is unlikely PGE would have a resource on-line in 2020.

PGE assumed it would commence construction in 2018 in order to have a resource on-line in 2020. According to IRS guidance issued after the tax extension legislation was passed in December 2015, a project receives the tax credit percentage based on the year 5 percent is spent, or construction begins ("safe harbor") as long as it meets "continuous construction" criteria, and it is online within two years.

Staff concludes that it is reasonable to make assumptions about the mechanics of the PTC when updating avoided cost prices to take into account the status of the PTC in the May 1 update. Staff concludes PGE reasonably assumed that it would commence construction of a new resource in 2018 if that resource is needed to address a resource deficiency that begins in 2020. Staff concludes it is less reasonable to assume, for purposes of determining the appropriate treatment of PTCs in the calculation of avoided cost prices, that PGE would commence building a resource in 2020 in order to meet a resource deficiency anticipated in 2020.

Staff's review of the Schedule 201 filing and supporting work papers did not identify any concerns with inputs or calculations. Staff concludes that Schedule 201 as filed on

April 29, 2016, meets the requirements contained in Order No. 14-058, and that the avoided cost prices in this filing are reasonable.

Staff recognizes that there may be circumstances that could cause the avoided cost prices to change in the future, whether they be from a compliance filing under UM 1610 or a future change in the deficiency/sufficiency period in light of Senate Bill 1547. The Commission could choose either to adopt the May 1 updated avoided cost prices consistent with its previous orders and wait for later changes, if necessary, or postpone the adoption of the updated avoided cost prices until additional reasons for changing the avoided cost prices emerge. The former option establishes avoided cost prices now based on more up-to-date inputs as envisioned by Order No. 14-058, while the latter postpones that update under the assumption that later circumstances will further inform the avoided cost prices.

Staff recommends that the Commission reject Obsidian's request to postpone consideration and adoption of PGE's annual update to avoided cost prices on the grounds that PGE will be filing additional avoided cost price updates in compliance with Order No. 14-058 and to take into account the impact of Senate Bill 1547. Obsidian is correct that PGE will be filing a compliance filing for the determinations in the Commission's most recent order in Docket No. UM 1610 and will do so no later than July 12, 2016. However, Obsidian's suggestion that any disputes regarding that filing will be addressed with one workshop is not necessarily true. It may take a considerable amount of time to resolve any issues with the compliance filing. In this case, the avoided cost prices included in PGE's annual update may not become effective for months. Further, the timing of any filing to update the resource deficiency period in light of Senate Bill 1547 is not clear. Therefore the timing of any additional updates to avoided costs prices is unclear at best.

Because the timing of any UM 1610 compliance updates or any change in deficiency/sufficiency period effects are uncertain, Staff recommends adopting the avoided cost prices in PGE's Application informed by updated inputs as contemplated by Order No. 14-058.

PROPOSED COMMISSION MOTION:

PGE's Application to Update Schedule 201 Qualifying Facility Information be allowed to go into effect on June 22, 2016.