ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 16, 2016

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** **August 17, 2016**

DATE: July 27, 2016

TO: Public Utility Commission

FROM: Brittany Andrus BA

THROUGH: Jason Eisdorfer and Mike Dougherty JE MD

SUBJECT: PACIFIC POWER: (Docket No. UM 1729(1)) Updates Qualifying Facilities Avoided Cost Payments, Schedule 37, Report to Commission per Order No. 16-117.

STAFF RECOMMENDATION:

The Commission should approve the standard non-renewable avoided cost prices included in PacifiCorp's June 21, 2016, filing.

The Commission should reject the standard renewable avoided cost prices in PacifiCorp's June 21, 2016, filing and direct PacifiCorp to file updated standard renewable avoided cost prices using a resource deficiency period beginning in 2018, capital cost and performance data from PacifiCorp's acknowledged 2015 IRP, PacifiCorp's March 2016 updates to its gas and electric forward price curves, and the current federal Production Tax Credit (PTC) status.

DISCUSSION:

Issue
Whether the Commission should approve PacifiCorp's June 21, 2016, supplemental filing of Schedule 37 avoided cost prices, or direct PacifiCorp to amend its filing.

Applicable Law
OAR 860-029-0080 provides, in relevant part:

(3) Each public utility shall file with the Commission draft avoided-cost information with its least-cost plan[1] pursuant to Order No. 89-507 and file final avoided-cost information within 30 days of Commission acknowledgment of the least-cost plan to be effective 30 days after filing.

Discussion and Analysis

Background and Current Filing
PacifiCorp's avoided cost filing follows the Commission's acknowledgment of its 2015 Integrated Resource Plan (IRP). The Commission acknowledged PacifiCorp's 2015 IRP on February 29, 2016. PacifiCorp filed its avoided cost update incorporating inputs from the 2015 IRP on March 1, 2016.

Senate Bill 1547, which among other things, requires PacifiCorp to serve 50 percent of its Oregon retail load with renewable energy by 2040, was signed into law on March 8, 2016. PacifiCorp's 2015 IRP does not include any analysis regarding how SB 1547 impacts PacifiCorp's renewable resource acquisition strategy.

PacifiCorp's 2015 IRP indicates that PacifiCorp's next planned major renewable resource acquisition is scheduled for 2038. Accordingly, PacifiCorp's renewable avoided cost prices filed on March 1, 2016, are based on the assumption that PacifiCorp will not acquire a major renewable resource until 2038. Using this assumption, any 20-year PURPA contracts signed while these prices are in effect would be based on sufficiency-period prices based on market projections for the duration of the contracts.

At the public meeting on March 22, 2016, Staff recommended that the Commission suspend PacifiCorp's avoided cost filings to allow additional time to verify the 2015 IRP inputs for both the renewable and non-renewable avoided cost prices and to consider what impact SB 1547 should have on the start date of PacifiCorp's next renewable resource deficiency period.

The Commission declined to approve PacifiCorp's March 1, 2016, avoided cost price updates and directed PacifiCorp, Staff, and interested parties to "work

[1] The term "least cost plan" is equivalent to "integrated resource plan," or "IRP."

together and propose an expedited and non-contested case process to update PacifiCorp's avoided costs in light of the passage of SB 1547."[2]

Subsequently, PacifiCorp filed its 2015 IRP Update on March 31, 2016, containing revised resource cost and performance data, among other items. The update also indicates that PacifiCorp has sufficient banked RECs to achieve compliance with Oregon's RPS, as amended by SB 1547, through 2025.[3] PacifiCorp also reported:

> Considering these updated RPS targets [in Oregon and California], renewable energy credit (REC) banking provisions and the market potential for RECs, PacifiCorp can meet its state RPS obligations through the [20-year] planning horizon with REC purchases. However, PacifiCorp has identified the potential for a near-term, time-sensitive opportunity that may reduce state RPS compliance costs over time through the acquisition of renewable resources that can take full advantage of federal income tax deductions and credits passed in December 2015. PacifiCorp has updated its action plan to issue requests for proposals (RFPs) seeking both REC purchase and resource procurement alternatives.[4]

On April 11, 2016, PacifiCorp issued its 2016 Request for Proposals for new renewable resources. Under the RFP, bidders have the option to build the resource and transfer ownership at commissioning ("build and transfer"), sell output of their project through a 20-year PPA that includes an option for PacifiCorp to purchase the project at end of contract, or propose an alternate transaction that results in PacifiCorp's ownership of the resource.[5]

PacifiCorp's 2016 Renewable Resource RFP does not specify a size limit and could result in the acquisition of resources that are larger than 100 MWs. Under the timeline included in the RFP, PacifiCorp plans to finally select any successful bids by July 15, 2016, and execute contracts resulting from the Renewable Resource RFP no later than September 16, 2016.

On April 29, 2016, PacifiCorp notified the Commission that it would not file the May 1 annual update to its avoided cost prices.

[2] Order No.16-117.
[3] PacifiCorp 2015 IRP Update 54.
[4] PacifiCorp 2015 IRP Update 55.
[5] 2016 PacifiCorp Request for Proposals Renewable Resources (2016 Renewable RFP) at 1-2.

Staff, PacifiCorp and interested parties met three times, on April 7, May 12, and June 2, 2016, to address the Commission's directive and to attempt to reach a settlement agreement. The parties did not reach agreement regarding the impact of SB 1547 on avoided cost prices, nor on related issues. Parties and Staff agreed to the following process and schedule: PacifiCorp files a revised Schedule 37; parties submit comments; Staff circulates its draft public meeting memo for comment; and final Staff memo is on the August 2, 2016, public meeting agenda.

PacifiCorp's June 21, 2016 Filing

PacifiCorp filed the revised Schedule 37 and supporting documentation on June 21, 2016. Avoided cost prices in this filing are based on the following:

- Renewable deficiency period beginning in 2018;
- Nonrenewable cost and performance inputs for the nonrenewable proxy resource and resource deficiency period start date (2028) unchanged from March 1, 2016 filing (based on acknowledged 2015 IRP);
- Resource cost and performance inputs for the renewable proxy resource changed from March 1, 2016, filing (now based on 2015 IRP Update);
- PTC included for renewable resource price, assuming 100 percent of the credit for the 2018 resource (PTC status would have been included in annual update filing); and
- Updated gas and electricity forward price curve (now based on March 2016 forward price curves, (as would have been included in the annual update filing).

PacifiCorp states that using an updated 2018 deficiency demarcation while retaining the 2015 IRP costs and performance assumptions "...would result in arbitrarily high prices that conflict with the customer indifference standard."[6]

Parties' Comments on Filing

The Community Renewable Energy Association and the Renewable Energy Coalition (Joint Parties) submitted comments on July 1, 2016. In summary, the Joint Parties recommend a sufficiency-deficiency demarcation of 2018 for renewable resources, and a 2024 demarcation for nonrenewable resources. They also recommend the Commission reject the use of PacifiCorp's 2015 IRP Update for updated resource capital cost and performance data inputs for the renewable proxy resource and instead retain the inputs based on the acknowledged 2015 IRP. The Joint Parties agree to the application of a 100 percent PTC to the 2018 renewable resource.

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[6] PacifiCorp Supplemental Update to Avoided Costs (Schedule 37), p. 5.

The Joint Parties' objections to PacifiCorp's updates to the costs and performance inputs of the proxy resource are based on both procedural and substantive concerns. With respect to the procedural objections, the Joint Parties note that the "Commission directed the parties to work together to file a more appropriate avoided cost update and IRP in light of SB 1547. There was never any suggestion that PacifiCorp should unilaterally recalculate the renewable proxy resource costs, without seeking acknowledgement of an IRP Update."[7] The Joint Parties also note that PacifiCorp's proposed changes to the resource costs and performance inputs "are supported by no acknowledged integrated resource plan ("IRP") and no vetted data or evidence."

With respect to their substantive concerns, the Joint Parties note that changing the capacity factor of the proxy wind farm from the 29 percent reflected in PacifiCorp's 2015 IRP to 35 percent is unrealistic for a new wind project in PacifiCorp's Oregon service territory. The Joint Parties acknowledge that a wind project outside of PacifiCorp's Oregon territory may have a capacity factor of 35 percent, but note that if the wind proxy is located outside of its Oregon service territory, PacifiCorp must include avoided transmission costs in the calculation of avoided cost prices.

The Joint Parties also note that the resource capital costs in PacifiCorp's acknowledged 2015 IRP "are reasonably set at $2,308 per kW-year[,]" which is "consistent with the Northwest Power and Conservation Council's Seventh Power Plan's assumption of $2,240 per kW-Year."[8] The Joint Parties note that it is not possible to determine whether the lower capital costs PacifiCorp takes from unvetted RFP bids are realistic or whether they include contingency cost adders for unexpected circumstances in the future.[9]

Finally, the Joint Parties support inclusion of the PTC in the updated avoided cost prices, asserting "[a]lthough the acknowledged IRP assumes the PTC is not available, this component of the renewable avoided costs would have normally been updated during the annual May 1 update, which is not the case for the capital costs and the wind capacity factor assumptions in the acknowledged IRP."[10]

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[7] Comments of the Community Renewable Energy Association and Renewable Energy Coalition, p 10.
[8] Comments of the Community Renewable Energy Association and Renewable Energy Coalition, p 16.
[9] Comments of the Community Renewable Energy Association and Renewable Energy Coalition, p 17.
[10] Comments of the Community Renewable Energy Association and Renewable Energy Coalition, p 17.

Staff Position
Staff:

(1) supports 2018 for the start of the renewable resource deficiency period,
(2) opposes the use of capital costs and performance data from the 2015 IRP Update or from RFP responses,
(3) supports the application of the 100 percent PTC to the 2018 resource,
(4) agrees with the Company that the nonrenewable resource deficiency period should remain at 2028 consistent with the 2015 IRP, and
(5) agrees with the Company the forward price curves used to calculate both renewable and nonrenewable avoided cost prices should be update to the March 2016 forward price curves, as they would have been had PacifiCorp filed the May 2016 annual update.

The 2018 deficiency period start date is supported by Staff and the Joint Parties, and is consistent with PacifiCorp's June 21 supplemental filing.

Staff does not support the use of an unacknowledged IRP Update as the source for avoided resource characteristics and costs. PacifiCorp did not request acknowledgment of its March IRP Update, though that was an option. The IRP Update, with supporting documentation, has not been vetted by the Commission and stakeholders since there was no expectation that an unacknowledged plan would be the basis for calculating avoided resource costs. Additionally, the use of a "preliminary review" of bid responses to the Company's RFP, which are not available for review, to support the avoided cost price update is unreasonable.

Staff agrees it is reasonable to update avoided cost prices to take into account the PTC. The extension of the PTC is not a disputable fact and the status of the PTC is subject to annual update under Order No. 14-058. Because of the extension of the PTC and related "Safe Harbor" provisions, it is reasonable to assume that if PacifiCorp takes sufficient steps in 2016 toward acquisition of a new resource and meets the criteria for Safe Harbor provisions of the PTC, the resource would be on-line by the end of 2018 and would qualify for 100 percent of the PTC.[11]

Staff agrees with the Company that the nonrenewable resource deficiency period should remain unchanged. Similar to with the question of whether to use cost

[11] The PTC will be phased out over time. Projects beginning construction in 2016 are eligible for 100 percent of the credit; projects beginning in 2017, 2018 and 2019 are eligible for 80 percent, 60 percent, and 40 percent, respectively.

and performance information from an unacknowledged IRP Update, it is not appropriate to adjust the deficiency period based on information from that same document. Additionally, SB 1547 has a significant, near-term impact on the timing of additional renewable resource acquisition, whereas it does not for the nonrenewable deficiency period.

Staff supports use of updated forward price curves because these are subject to annual updates under Order No. 14-058.

Staff disagrees with PacifiCorp that it is necessary to update the 2015 IRP cost and performance assumptions if the resource deficiency date for the renewable resource is moved from 2038 to 2018. The Commission ordered Staff and other parties to consider the impact of SB 1547 on PacifiCorp's avoided cost prices. SB 1547 precipitated a foundational resource planning change. However, if SB 1547 has any impact on resource performance and costs, the impact is too nebulous to capture in this round of avoided cost prices.

The Commission has established a process for stable, predictable updates to avoided cost prices. In addition to updates to avoided cost prices after IRP acknowledgement and on May 1 of each year, the Commission allows mid-cycle updates for "significant changes." Passage of SB 1547 was a significant change that necessarily impacts the renewable resource acquisition date of 2038 that is contained in PacifiCorp's most recently acknowledged IRP. SB 1547 does not have a clear impact on the costs and production characteristics assumed in PacifiCorp's most recently-acknowledged IRP.

PacifiCorp's assertion that ratepayers would pay more than avoided costs if renewable avoided cost prices are not updated to reflect lower resource costs and a higher capacity factor is not substantiated by verifiable information.

As noted by the Joint Parties, PacifiCorp has not explained how a new proxy wind farm can have a capacity factor as high as 35 percent and not need transmission to wheel its output to a load center. And, PacifiCorp has not provided information to support the drop in costs of the proxy resource.

The Commission spoke to the need to update current resource acquisition plans in light of SB 1547 in its review of PacifiCorp's 2017-2021 Renewable Portfolio Standard Implementation Plan (RPIP). The Commission acknowledged the RPIP, "subject to the condition that PacifiCorp files a new RPIP by July 15, 2016, with an analysis of SB 1547 ..."[12] The upcoming RPIP process may provide the

[12] Order No. 16-158 at 1.

Commission and stakeholders an opportunity to vet an updated renewable deficiency period and renewable resource cost and performance inputs.

Response to Parties' Comments regarding the Staff Public Meeting Memorandum

Staff circulated its Public Meeting Memorandum to parties on July 15, 2016, to provide opportunity to comment. Cypress Creek Renewables, the Joint Parties, and PacifiCorp filed comments.

The Joint Parties believe that Staff has not done sufficient analysis of whether the 2028 resource deficiency start date for non-renewable resources should be moved from 2028 to 2024. The Joint Parties assert that the Commission should require PacifiCorp to file new avoided cost prices based on a deficiency start of 2024 rather than 2028. The Joint Parties assert that 2028 start date is "arbitrary and unreasonable because the Company:

> 1) has not conducted adequate analysis to determine if the wholesale market has sufficient depth to meet PacifiCorp's summer peak until PacifiCorp's proposed resource sufficiency-deficiency demarcation (2028, which is about 12 years);
>
> 2) recently announced major coal plant retirements (the 337 MW Naughton 3 in 2018, and the 387 MW Cholla 4 in 2025);
>
> 3) has stated a possible need to accelerate coal plant retirements because of the Clean Power Plan and SB 1547 requirement to remove coal costs from Oregon rates; and
>
> 4) has stated a possible need to replace coal plants with flexible gas plants to integrate the increased need for renewable resources under SB 1547.[13]

The Joint Parties note that PacifiCorp's assumption that it would not acquire a new major resource until 2028 was not vetted or acknowledged in PacifiCorp's IRP process because the focus is on the Action Plan, not on resource decisions that are 12 years in the future.

Staff does not support the Joint Parties' recommendation to change the resource deficiency start date for non-renewable avoided cost prices. Staff agrees that while the starting point for avoided cost price inputs is the utility's last acknowledged IRP, the reasonableness of the IRP inputs are subject to

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[13] REC/CREA Comments at 20-21.

challenge during the review of avoided cost prices.[14] Staff disagrees that the 2028 deficiency-period start date is so unreasonable that it should be changed.

The date of PacifiCorp's next major resource is not an input of the IRP; it is the result of complex modeling considering a variety of scenarios. Staff acknowledges that changing some assumptions underlying the selection of 2028 as the resource acquisition year may change the outcome of the analysis. However, such a result is not apparent here. The possible early shut down of two coal plants and an increase in anticipated front-office transactions does not necessarily lead to a resource acquisition date in 2024 rather than 2028.

The Joint Parties also comment that "Staff suggests that Joint QF Parties can litigate renewable but not standard rate issues in PacifiCorp's RPIP process, despite its previous recommendation that inputs and assumptions like sufficiency demarcations should be considered in the compliance filing and not in a planning document. The practical effect will be to provide PacifiCorp an immediate opportunity to move out the year of renewable deficiency in isolation in a forum that was not designed or ever intended to address avoided cost rate issues."[15]

Staff did not intend to propose that parties litigate avoided cost price inputs in the RPIP process.

Finally, Cypress Creek Renewables supports Staff's positions on the inputs for the renewable avoided cost prices, subject to the Commission barring PacifiCorp from asking for a mid-cycle update to avoided cost prices "unless and until a new or updated IRP accounting for SB 1547 is acknowledged by the Commission."[16]

Conclusion

Staff's position of limiting PacifiCorp's post-2015 IRP acknowledgment avoided cost filing to the updated renewable resource deficiency period, and the three factors required by the annual May 1 update, represents a balanced outcome that conforms to the Commission's established process for avoided cost updates, and recognizes the unique situation created by SB 1547. The Commission should direct PacifiCorp to file an amended Schedule 37 based on this conclusion, to go into effect after a brief compliance review by Staff.

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[14] REC/CREA Response Comments at 10, *quoting* Order No. 05-523 at 36-37.
[15] REC/CREA Response Comments at 12.
[16] Comments of Cypress Creek Renewables at 3.

PROPOSED COMMISSION MOTION:

PacifiCorp file an amended Schedule 37 based on a renewable resource deficiency period beginning 2018, the application of a 100 percent PTC, a non-renewable resource deficiency period beginning in 2028, cost and performance data from the acknowledged 2015 IRP, and updated gas and electricity prices as required in the annual update.