

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 22, 2018

REGULAR X CONSENT EFFECTIVE DATE May 23, 2018

DATE: May 15, 2018

TO: Public Utility Commission

FROM: Brittany Andrus *BA*

THROUGH: Jason Eisdorfer *J* and JP Batmale *JB*

SUBJECT: PACIFIC POWER: (Docket No. UM 1729) Annual and Post-IRP avoided cost updates.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order approving Pacific Power's (PacifiCorp) nonrenewable avoided cost update, effective May 23, 2018.

Staff recommends that the Commission direct PacifiCorp to file revised renewable avoided costs to include avoided transmission costs for the renewable proxy resource, to be effective May 23, 2018.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's filing of updated standard avoided costs.

Applicable Orders and Rules

OAR 860-029-0040(4)(a) requires utilities to file updated avoided cost prices for qualifying facilities (QF) under PURPA¹ within 30 days of Commission integrated resource plan (IRP)² acknowledgment.³

¹ Public Utility Regulatory Policies Act of 1978.

² Integrated Resource Plan and least-cost plan are synonymous.

³ "In the same manner as rates are published for electricity sales each public utility shall file with the Commission, within 30 days of Commission acknowledgement of its least-cost plan pursuant to Order No.

The Commission added another avoided cost update in Order No. 14-058,

[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 of 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 [PTC]; and
- (4) Any other action of 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.⁴

Background

PacifiCorp's 2017 IRP was acknowledged on December 11, 2017.⁵ At the March 27, 2018, public meeting, the Commission adopted Staff's recommendation that the date of the IRP acknowledgement decision, and not the date the order is issued, begins the 30 day timeline to file avoided cost updates.⁶ The Commission granted PacifiCorp's request for a 30-day time period to file its avoided cost update.

On April 26, 2018, PacifiCorp submitted the post-IRP acknowledgment update to its standard avoided cost information, which was formerly referred to as "Schedule 37."

89-507, standard rates for purchases from qualifying facilities with a nameplate capacity of one megawatt or less, to become effective 30 days after filing. The publication shall contain all the terms and conditions of the purchase. Except when a public utility fails to make a good faith effort to comply with the request of a qualifying facility to wheel, the public utility's standard rate shall apply to purchases from qualifying facilities with a nameplate capacity of one megawatt or less."

⁴ Order No. 14-058 at 25-26.

⁵ Order No. 18-138 in Docket No. LC 67.

⁶ Order No. 18-096 in Dockets No. LC 67 and UM 1729.

Also on April 26, 2018, PacifiCorp filed a Motion for Emergency Interim Relief. Staff filed its response to this motion on May 11, 2018, and the issues raised in the Motion for Emergency Relief are not addressed here.

On April 27, 2018, the Commission issued Order No. 18-138 acknowledging PacifiCorp's 2017 IRP with conditions and modifications. Included in this order is Commission acknowledgment of three action items that comprise PacifiCorp's Energy Vision 2020: wind repowering, new wind resources, and a new transmission line. The transmission line action item (Aeolus to Bridger/Anticline line) is needed to enable interconnection of the acknowledged new Wyoming wind resources

On May 1, 2018, PacifiCorp filed its 2017 IRP Update for "informational purposes only."⁷ Because PacifiCorp did not request acknowledgment of the IRP Update, it was not the basis for any inputs to the standard avoided cost filing addressed in this staff report.

Analysis

Staff has identified no concerns with the majority of the inputs used to derive the updated avoided costs. PacifiCorp calculated its avoided costs using the appropriate deficiency years of 2030 for nonrenewable and 2021 for renewable in accordance with the acknowledged 2017 IRP. Resource costs, resource performance, capacity contribution factors, and financial parameters are also updated consistent with the 2017 IRP. Previously, PacifiCorp's avoided costs included an integration cost for wind QFs only; this filing also contains a solar integration charge. The wind and solar integration charges are based on the Flexible Reserve Study component of the acknowledged 2017 IRP.⁸

Avoided cost price changes

A comparison of current avoided cost prices with those in the proposed update is shown in Table 1 (assumes 15 years of fixed payments beginning in 2020, and applies the 2017 IRP discount rate).

⁷ Docket No. LC 67, PacifiCorp's 2017 Integrated Resource Plan Update, cover letter.

⁸ PacifiCorp 2017 Integrated Resource Plan, Appendix F.

Table 1. Current and proposed levelized avoided cost prices.

Nonrenewable \$/MWh

	Baseload	Wind	Fixed Solar	Tracking Solar
Current	\$38.27	\$32.89	\$41.57	\$41.43
Proposed	\$40.19	\$36.67	\$45.67	\$46.10
Difference	5.0%	11.5%	9.9%	11.3%

Renewable \$/MWh

	Baseload	Wind	Fixed Solar	Tracking Solar
Current	\$52.53	\$43.85	\$51.97	\$52.73
Proposed	\$35.52	\$31.02	\$39.31	\$40.07
Difference	-32.4%	-29.2%	-24.4%	-24.0%

Nonrenewable avoided costs have increased significantly, driven in large part by the higher capital costs of a combined cycle combustion turbine (CCCT). The avoided CCCT resource cost in the current avoided cost prices, using 2015 IRP assumptions, is \$876 per kW (2015\$), as compared to the nonrenewable resource cost underlying proposed avoided costs of \$1,363 per kW (2016\$, 2017 IRP assumptions).

Conversely, the proposed renewable avoided costs decrease significantly. This reduction is driven by lower capital costs, and by the application of the PTC.

Capital cost inputs for the renewable wind resource proxy change from \$2,179 per kW underlying the current renewable avoided costs to \$1,637 per kW (2016\$).

The applicability of the full PTC to the 2021 wind resource is the primary driver of the renewable avoided cost reduction. PacifiCorp's current avoided costs assume a renewable resource deficiency year of 2028; a wind resource coming online in 2028 would not qualify for a PTC. The proposed renewable avoided costs are based on a wind resource that is operational in 2021, thereby qualifying for 100 percent of the tax credit. Specifically, the cost in 2021 of the avoided wind resource is lowered by \$19.87/MWh.

Staff notes that the levelized avoided cost prices as calculated by Staff above differ from those in PacifiCorp's workpapers included in this filing⁹. PacifiCorp calculates the a levelized price based on payments from 2018 to 2032; Staff selected the years 2020 to 2034 as representative of the payments a QF would receive if beginning the contracting process at this time.

Transmission costs

Staff objects to PacifiCorp's omission of the transmission component of the acknowledged Energy Vision 2020 actions for purposes of calculating renewable avoided costs. PacifiCorp has stated repeatedly that the new transmission is necessary to deliver the new Wyoming wind resource. Because PacifiCorp would not build the avoided wind resource without new transmission, the renewable proxy resource should include transmission costs, thereby increasing the renewable avoided cost prices.

The Commission addressed the question of whether an "on-system" resource could include avoided transmission for purposes of avoided cost calculations in Docket No. UM 1610, concluding:

If the proxy resource used to calculate a utility's avoided costs is an on-system resource, there is a rebuttable presumption that there are no avoided transmission costs, and thus the costs of third-party transmission are not included in the calculation of avoided cost prices. This is the situation for Pacific Power. To rebut the presumption, evidence offered by Staff and other parties must demonstrate that a renewable proxy resource has incremental transmission costs that can actually be avoided by the purchase of QF energy. The evidence must be compelling and, therefore, factual and not anecdotal.¹⁰

It is clear in PacifiCorp's acknowledged 2017 IRP that their renewable proxy resource must have incremental transmission costs. The Commission's order acknowledging PacifiCorp's 2017 IRP noted that PacifiCorp's Action Item 1b, acquisition of up to 1100 MW of wind resources in Wyoming, and Action Item 2a, the Aeolus to Bridger/Anticline transmission line, were directly tied in the IRP:

The proposed wind resources will be acquired in conjunction with Action Item 2a, which describes a new 140-mile, 500 kilovolt (kV) transmission line and associated infrastructure running from the new

⁹ Docket No. UM 1729, Oregon Avoided Cost Study (OR Sch 37 AC Study_20180425.xls), April 25, 2018, Table 8.

¹⁰ *In the Matter of the Public Utility Commission of Oregon Staff Investigation in Qualifying Facility Contracting and Pricing*, (UM 1610), Order No. 16-174 at 8.

Aeolus substation near Medicine Bow, Wyoming, to a new annex substation, Bridger/Anticline, which will be located near the existing Jim Bridger substation (Aeolus to Bridger/Anticline line).¹¹

And, PacifiCorp's own statements reflect the transmission resource enables the interconnection of the wind resources proposed in PacifiCorp's IRP with PacifiCorp's transmission system.¹² This overcomes the rebuttable presumption threshold. Staff believes that transmission costs must be included in the Company's new levelized, renewable avoided costs.

Parties' comments on avoided cost update

The Community Renewable Energy Association and the Renewable Energy Coalition (Joint QF Parties) filed comments regarding PacifiCorp's avoided cost updates on May 11, 2018. Relying on the Commission's order acknowledging PacifiCorp's 2017 IRP, the Joint QF Parties request that the Commission require PacifiCorp to include the costs of its Wyoming transmission line with the costs of the avoidable renewable resource in Wyoming, and that the updated avoided cost prices go into effect promptly.¹³ Joint QF Parties state that the inclusion of transmission costs "should result in a significant increase in PacifiCorp's renewable avoided costs."¹⁴ Joint QF Parties also commented on PacifiCorp's motion for emergency relief.¹⁵

Conclusion

PacifiCorp's nonrenewable avoided costs are calculated accurately and should go into effect immediately.

Staff agrees with the Joint QF Parties that PacifiCorp's renewable resource avoided costs should be calculated consistent with the renewable resource action acknowledged in the 2017 IRP, a Wyoming wind resource paired with the requisite transmission. Staff recommends that the Commission require PacifiCorp to file revised renewable avoided cost prices no later than May 25, 2018, and order that the revised renewable avoided

¹¹ *In the Matter of PacifiCorp, dba Pacific Power, 2017 Integrated Resource Plan*, (LC 67), Order No. 18-138, pp. 6-7.

¹² Order No. 18-138, p. 7 ("PacifiCorp states the transmission resource is necessary to relieve congestion and will enable the interconnection of the proposed wind resources into PacifiCorp's transmission system.").

¹³ Docket No. UM 1729, Comments of the Community Renewable Energy Association and the Renewable Energy Coalition, May 11, 2018.

¹⁴ *Id.* at 1.

¹⁵ Renewable Northwest also commented on PacifiCorp's motion to eliminate the non-renewable avoided cost price stream. Staff addresses this issue in the response to the motion filed on May 11, 2018.

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cost prices will be effective on June 1, 2018, unless Staff files a notice in Docket No. UM 1729 that the prices remain inaccurate.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's nonrenewable avoided cost update, effective May 23, 2018.

Direct PacifiCorp to file revised renewable avoided costs to include avoided transmission costs for the renewable proxy resource.

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