

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 16, 2020**

REGULAR CONSENT EFFECTIVE DATE June 17, 2020

DATE: June 8, 2020

TO: Public Utility Commission

FROM: Eric Shierman

THROUGH: Bryan Conway, Michael Dougherty, JP Batmale, and Kim Herb **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UM 1729(3))
Update to Standard Avoided Cost Schedule for Qualifying Facilities.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should adopt Pacific Power's (PacifiCorp or Company) filing, which updates its Standard Avoided Cost Schedule payments.

DISCUSSION:

Issue

Whether the Commission should approve Pacific Power's update to its Standard Avoided Cost Schedule.

Applicable Law or Rule

Commission Order No. 14-058 ordered an annual avoided cost update:

[W]e 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 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

Analysis

Background

The current avoided costs were approved by the Commission in Order No. 19-156 in UM 2001. On May 1, 2020, Pacific Power filed its annual update of standard avoided cost purchases from eligible qualifying facilities, requesting an effective date of June 1, 2020. On May 18, 2020 the Company, after consultation with Oregon Public Utility Staff (Staff), submitted a revision to Appendix 2 and a new effective date of June 17, 2020.

Staff identified a mischaracterization of the requirement. The Company promptly corrected the mistake:

After consultation with Public Utility Commission of Oregon Staff (Staff), PacifiCorp submits a revised Appendix 2 Pacific Power Avoid Cost Calculation. On Page 4 of 6, PacifiCorp has made the following change:

For informational purposes, **Tables 7 and 8** show a comparison between current avoided costs currently in effect in Oregon and the avoided costs after incorporating the required updates, proposed by Staff in this filing. ~~An alternate version of Tables 7 and 8 compares Staff's proposal to the Company's proposed avoided costs.~~

Staff hosted a video conference workshop on May 26, 2020, with representatives of PacifiCorp and stakeholders. No parties raised objections to PacifiCorp's application of Commission-approved methods for calculating avoided cost.

¹ *In the Matter of the Public Utility Commission of Oregon Staff Investigation into Qualifying Facility Contracting and Pricing* (UM 1610), Order No. 14-058, pp. 25-26.

Comparison

The Company's avoided cost prices have decreased because of the decline in wholesale energy prices since last year's update. Tables 1 through 4 display PacifiCorp's proposed 2020 avoided costs in cents per kilowatt hour (KWh) with the current 2020 prices that were approved by the Commission last year in Order No. 19-156.

Table 1: Standard On-Peak Fixed Avoided Cost in Cents per KWh

| Year | Baseload | Wind | Fixed Solar | Tracking Solar |
|----------|----------|------|-------------|----------------|
| Current | 3.15 | 3.08 | 3.08 | 3.08 |
| Proposed | 2.58 | 2.52 | 2.51 | 2.51 |

Table 2: Standard Off-Peak Fixed Avoided Cost in Cents per KWh

| Year | Baseload | Wind | Fixed Solar | Tracking Solar |
|----------|----------|------|-------------|----------------|
| Current | 2.2 | 2.14 | 2.13 | 2.13 |
| Proposed | 1.92 | 1.86 | 1.86 | 1.86 |

Table 3: Renewable On-Peak Fixed Avoided Costs in Cents per KWh

| Year | Baseload | Wind | Fixed Solar | Tracking Solar |
|----------|----------|------|-------------|----------------|
| Current | 3.15 | 3.08 | 3.08 | 3.08 |
| Proposed | 2.58 | 2.52 | 2.51 | 2.51 |

Table 4: Renewable On-Peak Fixed Avoided Costs in Cents per KWh

| Year | Baseload | Wind | Fixed Solar | Tracking Solar |
|----------|----------|------|-------------|----------------|
| Current | 2.2 | 2.14 | 2.13 | 2.13 |
| Proposed | 1.92 | 1.86 | 1.86 | 1.86 |

Drivers of Change

As described above, the avoided cost annual update is limited to updates to the four factors referenced in Order No. 14-058. Staff confirmed that PacifiCorp followed established methods for an annual avoided cost update and that the proposed changes in this annual update are driven by changes in wholesale market prices weighed by the marginal impact of three wholesale markets on the Company's avoided cost of market purchases: The California Oregon Border (COB), Mid-Columbia (Mid-C), and Palo Verde.²

² PacifiCorp. UM 1729(3)—Standard Avoided Cost Purchases from Eligible Qualifying Facilities May 1, 2020, Exhibit 9.

Post-IRP Update

This Annual update to avoided cost prices will be replaced by another, more comprehensive Post-IRP update. Once the Commission releases its order acknowledging the Company's 2019 IRP, all the cost inputs will need to be updated, and the Company will have 30 days to file a new update.

Peak Hours

Peak hours are identified as 6 am to 10 pm, which to Staff seems very broad. Defining a more precise on-peak period is likely to reflect costs better and could be congruent with loss of load probability analysis. Such precision could have the effect of changing payback periods for investments in different resources. For example, a more precise identification of peak hour costs may shorten the payback period for investments in battery storage. Staff believes this issue, which represents a methodological change to Pacific Power's price calculation, should be explored further in UM 2000 and UM 2011. For the purposes of this avoided cost update, Pacific Power's traditional definition of peak hours is an appropriate use of established methodology.

Conclusion

Staff supports Pacific Power's avoided cost update as following the Commission's approved methods. Staff would like to explore a more data-driven definition of peak hours in UM 2000 and UM 2001, which may change the method of future updates.

PROPOSED COMMISSION MOTION:

Approve Pacific Power's update to its Standard Avoided Cost Schedule.