

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: 10/25/2016**

REGULAR _____ CONSENT X EFFECTIVE DATE 10/25/2016

DATE: 10/17/2016

TO: Public Utility Commission

FROM: Michael Breish *MB*
J *sc*

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1783) 2015
Renewable Portfolio Standard Compliance Report.

STAFF RECOMMENDATION:

Staff recommends that the Commission find that Portland General Electric Company (PGE) complied with the renewable portfolio standard (RPS) for the 2015 compliance period based upon the PGE 2015 RPS Compliance Report. Staff further recommends that PGE be directed to retire the renewable energy credits (REC) identified in its 2015 Compliance Report, and to provide a Western Renewable Energy Generation Information System (WREGIS) retirement report to the Commission, subject to appropriate non-disclosure agreements, within 30 calendar days of this Order

DISCUSSION:

Issue

Whether the Commission should find that PGE complied with the requirements of the RPS over the 2015 RPS compliance period.

Applicable Law

The RPS is codified at ORS 469A.005 through 469A.210. ORS 469A.170(1) and OAR 860-083-0350(1)(a) require that each electric company subject to Oregon's RPS provide an annual report demonstrating its compliance (or failure to comply) with the RPS standard.

Among the reporting details required by ORS 469A.170(2)(a-h) and OAR 860-083-0350(2)(a-s), the Compliance Report must contain a complete accounting of RECs used for compliance in the compliance year, separating the

RECs into bundled or unbundled, showing clearly which generating unit produced the RECs, the total cost of compliance, and a detailed explanation of any material deviations from the electric company's applicable acknowledged RPS implementation plan filed under OAR 860-083-0400.

ORS 469A.170(2) and OAR 860-083-0350(2) subsections (b-g) provide the Commission with the information necessary to determine whether an electric company may be considered in compliance with the RPS. These subsections require the electric company to provide a complete Compliance Report that shows the electric company has acquired and retired an appropriate number of valid RECs, bundled or unbundled, banked or unbanked, for the compliance year.

ORS 469A.100(1) provides that "[e]lectric utilities are not required to comply with a renewable portfolio standard during a compliance year to the extent that the incremental cost of compliance, the cost of unbundled renewable energy certificates and the cost of alternative compliance payments under ORS 469A.180 exceeds four percent of the utility's annual revenue requirement for the compliance year."

Discussion and Analysis

Background

RPS compliance must be demonstrated through the retirement of RECs that are maintained through the WREGIS.¹ RECs may be either bundled with energy or exchanged separately (unbundled).² One REC is issued per megawatt-hour of generation produced.³

RECs procured before March 31, 2016, may be used for the 2015 RPS compliance, and RECs were allowed to be banked and carried forward indefinitely for future compliance.⁴ However, only 20 percent of a regulated utility's RPS compliance obligation may be satisfied using unbundled RECs in any given compliance year.⁵

¹ OAR 330-160-0020.

² OAR 330-160-0025.

³ OAR 330-160-0015(15).

⁴ OAR 860-083-0300(3)(b)(B); also note that SB 1547 established new requirements regarding REC generation and banking privileges for future compliance years.

⁵ ORS 469A.145(1).

PGE's 2015 Compliance Report

PGE's total number of megawatt-hours sold to retail customers in 2015 was 17,715,390.⁶ RPS compliance requirements for 2015 direct PGE to retire 15 percent of this total in 2015, which amounts to 2,657,309 RECs.

The following tables show how PGE reports retirement of the various types of RECs to meet the RPS compliance target for 2015 consistent with Oregon statutes and rules:

Type of REC	Number of RECs	Percentage of RPS
Unbundled – newly acquired	17,191	
Unbundled - banked	504,759	
Unbundled subtotal	521,950⁷	19.6%
Bundled – newly acquired	0	
Bundled – standard banked	2,132,655	
Bundled – “two-for-one” banked	1,352 ⁸	
Bundled subtotal	2,135,359	80.4%
Total	2,657,309	100%

PGE's 2015 RPS Compliance Report demonstrates compliance with the RPS through the use of 2,135,359 bundled RECs and 521,950 unbundled RECs. PGE's unbundled REC retirement amount falls under the 20 percent limit allowed by ORS 469A.145(1).

Staff reviewed PGE's calculation of the total cost of compliance and the percentage of revenue requirement (2.2 percent) that the cost represents. This value is below the cost cap of four percent of revenue requirement established by ORS 469A.100(1). In the context of the incremental calculations prescribed in OAR 860-083-0100, Staff finds the calculations reasonable.

PGE's responses to the remaining reporting requirements described in OAR 860-083-0350(2)(a-s) can be found in Appendix A of these comments.

⁶ 2015 PGE Renewable Portfolio Standard Oregon Compliance Report (RPS Compliance Report) at 1.

⁷ For the purposes of this table, “unbundled – newly acquired” means the unbundled REC was generated in the year 2015 or 2016. “Unbundled – banked” means the REC has a vintage date prior to 2015. These terms are not indicative of when PGE made the purchase.

⁸ See OAR 860-084-0070(2). Because the Solar Photovoltaic Capacity Standard allows for RECs generated by qualifying facilities to count twice towards the RPS, the amount PGE is contributing towards the 2015 RPS is technically 2,704. Staff notes that the Solar Photovoltaic Capacity Standard was eliminated on a forward basis by SB 1547.

Comparison to the 2014 RPS Implementation Plan

Electric utilities must file an implementation plan every two years that forecasts the resources expected to be used to meet the RPS targets and an estimate of the cost of compliance over a forward five-year period.⁹

PGE's 2015 Compliance Report differs from the 2014 Implementation Plan (UM 1683) in the following ways:¹⁰

1. Lower load than forecasted
2. Use of unbundled RECs

The above reasons resulted in an overall lower compliance need of 207,210 RECs than forecasted in the 2014 RPS implementation plan. Staff has reviewed these differences and finds them reasonable. Otherwise, the 2015 RPS Compliance Report is consistent with the acknowledged 2014 RPS Implementation Plan.

Stakeholder Comments

The Industrial Customer of Northwest Utilities (ICNU)'s comments are split into three topics. First, INCU asserts that PGE's incremental cost calculation methodology is incorrect and not capturing the actual costs borne to ratepayers. ICNU believes that the language of ORS 469A.100 directs the utility to calculate incremental cost based on *delivered* electricity rather than what the administrative rules requires, which is a methodology based on *retired RECs*.¹¹ ICNU identifies that the latter fails to account for disconnects between actual operations of the grid and regulatory compliance. For example, ICNU highlights under the current regulatory directive, PGE's Tucannon wind farm is not accounted in the 2015 RPS incremental cost calculations, despite the facts that the resource was successfully delivering power to PGE's system and that ratepayers are currently paying for the resource. ICNU asserts that such a disconnect between reported costs and actual costs contravenes ORS 469A.100 and ratepayer protection of incremental costs borne from RPS compliance. Because of this, ICNU recommends the Commission require PGE to recalculate incremental cost based on delivered qualifying electricity in 2015.

Second, ICNU identifies ambiguity in the administrative rules that arises from apparent conflict between the incremental cost definition and ORS 469A.100 language incorporated into the section regarding incremental cost calculation. The definition states "the cost of bundled [RECs] used for compliance for a compliance year as

⁹ See ORS 469A.075.

¹⁰ PGE's 2014 RPS Implementation Plan was acknowledged by the Commission in Order No. 14-265.

¹¹ ICNU Comments, at page 5, Docket No. UM 1783, July 15, 2016.

calculated pursuant to OAR 860-083-100,” while the language from ORS 469A.100 states “incremental cost...for long-term qualifying electricity is the difference between the levelized annual cost of qualifying electricity delivered in a compliance year and the levelized annual cost of an equivalent amount of electricity delivered from the corresponding proxy plant.”¹² ICNU identifies other areas within the administrative rules where the use of RECs and delivered power for purposes of incremental cost calculation provide an unclear directive to how the utilities should be calculating incremental cost. ICNU recommends the Commission update the rules in order to reflect the presumed statutory directive on *delivered costs*, and not *retired RECs* in part because of legislative intent and interpretation.

Third and finally, ICNU finds that PGE prudently complied with the RPS by maximizing its use of unbundled RECs as limited by ORS 469A.145.¹³ However, ICNU expressed concern about PGE’s decision to not acquire additional unbundled RECs for compliance in future years when it procured such RECs for 2015 RPS compliance purposes. ICNU finds PGE’s response regarding price speculation spurious because of PGE’s proposed 2016 renewable resource RFP.¹⁴ ICNU identifies the significant cost savings that derive from an optimal use of unbundled RECs compared to a physical resource compliance strategy. ICNU therefore recommends PGE acquire a maximum number of unbundled RECs that can be used over a five-year period as limited by SB 1547.

PGE’s Response

In response to ICNU’s assertion of improper incremental cost calculation, PGE claims that ICNU’s use of legislative intent is wrong because other parts of ORS 469A support the use of RECs for purposes of RPS compliance. Because RECs embody the environmental attributes of energy, ICNU’s position that cost to deliver be the determinant of incremental cost would fundamentally fail the premise of Oregon’s RPS compliance scheme. PGE bolsters this argument by discussing the REC banking provisions of ORS 469A.

After explaining how the Company believes it is in fact compliant with the incremental cost directives found both in statute and administrative rules, the Company states it believes an opportunity exists to review the administrative rules in order to determine if adjustments need to be made to ensure that the prescribed methodology captures the “true incremental costs of complying with Oregon’s RPS requirements.”¹⁵

¹² Ibid., at page 9.

¹³ ORS 469A.100 limits a utility’s use of unbundled RECs for a given compliance year to 20 percent. Exceptions exist though for unbundled RECs produced by qualifying facilities located in Oregon.

¹⁴ ICNU Comments, at page 12, Docket No. UM 1783, July 15, 2016.

¹⁵ PGE’s Reply Comments, at page 5, Docket No. UM 1783, August 15, 2016.

Regarding maximized usage of unbundled RECs over a five-year period, PGE asserts that “on a long term basis, reliance on an illiquid unbundled REC marketplace is not a prudent RPS compliance strategy.”¹⁶ PGE prefers to be able to engage and assess the market periodically to “appropriately...balance costs and risks.”¹⁷

Staff's Analysis

Staff concurs with ICNU's concerns regarding the current incremental cost methodology's inability to capture the true incremental costs deriving from PGE's compliance with the RPS. However, Staff finds that PGE correctly determined the incremental cost under the directive in the current administrative rules. Though Staff believes ICNU's example of Tucannon is illustrative of the disconnect between what ratepayers are currently paying for in rates and the purported incremental costs to comply with an RPS, newer issues such as impacts of SB 1547 on REC characteristics, REC bank management and an increased RPS greatly accentuate the issues of the current incremental cost methodology. Therefore, Staff plans to further examine this in Docket No. UM 1788, PGE's 2016 Revised RPS Implementation Plan. Additionally, both utilities and stakeholders have agreed that discussions should commence to address this and other issues related to RPS compliance in anticipation of the upcoming RPS rulemaking.

Staff believes that ICNU's request of PGE to procure an amount of unbundled RECs on a five-year forward looking basis is not appropriate in this docket. Rather, such an action should be reviewed in the context of an integrated resource plan and an RPS implementation plan. The RPS compliance reports serve as a compliance document, not a planning one.

Conclusion

Staff concludes that PGE has met the RPS compliance targets mandated by ORS 469A.052(1)(a) and will meet the RPS compliance reporting requirements mandated by OAR 860-083-0350 upon submission of the 2015 bundled REC incremental cost data.

¹⁶ Ibid., at page 6.
¹⁷ Ibid., at page 5.

PROPOSED COMMISSION MOTION:

- (1) Find PGE to be compliant with Oregon's Renewable Portfolio Standard during the 2015 compliance period; and
- (2) Direct PGE to retire the RECs identified in its 2015 Compliance Report, and to provide a Western Renewable Energy Generation Information System retirement report to the Commission, subject to appropriate non-disclosure agreements, within 30 calendar days of this Order.