

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON
AR 610

In the Matter of)	
)	
Rulemaking Regarding the Incremental Cost)	CALPINE ENERGY
of Renewable Portfolio Standard Compliance)	SOLUTIONS, LLC'S
)	COMMENTS ON STAFF'S
)	QUESTIONS
)	
_____)	

INTRODUCTION AND SUMMARY

Calpine Energy Solutions, LLC (“Calpine Solutions”) respectfully submits these comments to the Public Utility Commission of Oregon (“Commission”) in response to the questions posed by Commission Staff’s memorandum dated August 10, 2018.

Calpine Solutions is a Commission-certified electricity service supplier (“ESS”) that is subject to Oregon’s Renewable Portfolio Standard (“RPS”), ORS 469A *et seq.*, and will therefore be impacted by this rulemaking’s implementation of that law.

This phase of the rulemaking in AR 610 addresses the law’s four-percent cost cap. The RPS requires the Commission to implement a four-percent cost cap for ESSs that is “equivalent” to the cap implemented for investor-owned utilities, which are defined as “electric companies” in the statute. ORS 469A.100(6). The RPS provides, in pertinent part:

The commission shall establish limits on the incremental cost of compliance with the renewable portfolio standard for electricity service suppliers under ORS 469A.065 that are the equivalent of the cost limits applicable to the electric companies that serve the territories in which the electricity service supplier sells electricity to retail electricity consumers. If an electricity service supplier sells

electricity in territories served by more than one electric company, the commission may provide for an aggregate cost limit based on the amount of electricity sold by the electricity service supplier in each territory.

Id.

The existing administrative rules related to the cost cap for ESSs have worked well for Calpine Solutions in the context of an RPS requirement that is limited to acquisition and retirement of unbundled renewable energy certificates (“RECs”). The one limited exception is a calculation issue Calpine Solutions has experienced related to the calculation method used in past years for purposes of evaluating cost of compliance for an ESS that serves customers in more than one service territory, which Calpine Solutions has discussed with Staff and ultimately may not require a revision to the rule itself. However, Calpine Solutions is also more generally concerned that once the RPS requires ESSs to acquire and retire bundled RECs beginning in compliance year 2021, the four-percent cost cap may become more relevant to ESSs and may pose additional issues than have been experienced to date.

Because Calpine Solutions does not have direct experience with most issues posed by Staff, which implicate the proxy plant method and the calculations related to the bundled REC requirements, Calpine Solutions is still evaluating these issues. We look forward to reviewing comments of other parties in this process before making final recommendations to the Commission.

COMMENTS

- 1. Is the proxy plant methodology, last examined in Order No. 14-034 in Docket No. UM 1616, and summarily defined in OAR 860-083-0010(30), accurately and appropriately serving as the baseline for the incremental cost of compliance calculation?**

Calpine Solutions’ Response: No position at this time.

2. Do our incremental cost rules accurately reflect the appropriate categories of cost for the incremental cost of compliance calculation?

Calpine Solutions' Response: No position at this time.

3. Are there any additional components of delivered cost that you would specify must be included in the calculation of incremental cost for long-term or short-term resources? What legal and/or policy justification is there for your position?

Calpine Solutions' Response: No position at this time.

4. Should the cost of qualifying electricity be included in the incremental cost of compliance in the year the electricity is generated, or in the year the associated RECs are retired? What legal and/or policy justification is there for your position?

Calpine Solutions' Response: No position at this time.

5. Should the rules be amended to reflect any changes you suggested? Do you have any specific recommendations for changes to the rules?

Calpine Solutions' Response: There may need to be a revision to the rules to address the issues identified in these comments.

6. What should happen when an electric company reaches the four percent cost limit? What legal and/or policy justification is there for your position?

Calpine Solutions' Response: Calpine Solutions has no specific recommendations at this time, but we are concerned with the ambiguity on this point in the existing rule applicable to an ESS.

The existing rule provides: "If the average cost of compliance per megawatt-hour for an electricity service supplier subject to ORS 469A.065 exceeds the cost limit for a compliance year, *the electricity service supplier is not required to incur additional costs to meet section (1)*

of this rule.” OAR 860-083-0300(2)(b) (emphasis added). In turn, “section (1) of this rule,” *id.*, provides: “Each electricity service supplier subject to ORS 469A.065 must meet the requirements of 469A.052 unless a limit specified in section (2) or section (3) of this rule applies.” OAR 860-083-0300(1). This rule suggests the ESS would be exempt from all future compliance with the RPS. In contrast, OAR 860-083-0300(3)(b)(D) suggests that RECs must be retired up to the cost limit in the applicable year by stating: “If the total cost of compliance exceeds the cost limit under ORS 469A.100, the electric company or electricity service supplier is not required to use *additional* renewable energy certificates or make an alternative compliance payment to meet the applicable standard.” (emphasis added).

From these rules, Calpine Solutions is unsure what actions must be taken in the event of exceeding the four-percent cost cap. The Commission may want to clarify the rules and consider additional alternatives to those in the rules.

7. What guidance, if any, should our rules provide about the process for when four percent is reached? Do you have any specific recommendations for changes to the rules?

Calpine Solutions’ Response: Calpine Solutions continues to evaluate this issue but preliminarily agrees that further clarity on the process and actions required in the event of exceeding the cap should be clarified in the rules.

8. Also considering ORS 469A.075, which requires an implementation plan, what should happen if an electric company is forecast to reach the four percent cost limit in a future compliance year? What legal and/or policy justification is there for your position?

Calpine Solutions’ Response: No position at this time.

9. Should utilities include the cost of unbundled REC purchases at the time of purchase or the time of retirement? What legal and/or policy justification is there for your position?

Calpine Solutions' Response: No position at this time.

10. Are there any specific changes you would like to see to the administrative rules regarding any aspect of the ORS 469A.100 cost limit calculation? What legal and/or policy justification is there for your position?

Calpine Solutions' Response: Calpine Solutions has thus far identified two concerns related to the implementation of the four-percent cost cap for ESSs.

As Calpine Solutions understands the current administrative rules, the four-percent cost cap attempts to approximate the incremental cost of compliance and then compare that cost to the revenue requirement of the electric companies in whose territory the ESS serves customers. *See* OAR 860-083-0100 and -0300.

In the current calculation, unbundled RECs are valued at actual cost. OAR 860-083-0010(39). However, bundled RECs are treated differently depending on their duration. OAR 860-083-0010(27) & (36); OAR 860-083-0100(1)(c) & (e). Purchases of bundled energy and RECs over five years in duration (or resources owned by the ESS) are compared to cost of the "proxy plant" which is currently a long-term gas plant, with the positive difference being the incremental cost of compliance for long-term bundled RECs. In contrast, purchases of bundled RECs and energy of shorter than five years in duration are compared to the cost of short-term market energy, with the positive difference being the incremental cost of short-term bundled RECs. The proportional costs of these three buckets of RECs is averaged to get an "average cost of compliance per megawatt hour" of energy delivered by the ESS, which is intended to be a quantity that is less than four percent of the revenue requirement (per megawatt hour) of the

electric companies in whose territory the ESS serves customers. OAR 860-083-0010(7); OAR 860-083-0300(2). Calpine Solutions has two specific concerns at this time.

First, as explained in workshops, Calpine Solutions has raised specific problems it has experienced with the mechanics of the existing calculation of the four-percent cost cap for ESSs related to the apportioning of the ESS's load between two electric companies. Although the mechanics of the problem are complex, the essence of the problem is that the calculation formula provided by Staff used in past years required the ESS to prove that it independently met the four-percent cost cap in each electric company's territory, but the formula did not properly apportion the numerator and denominator of the calculation to ensure that costs in each territory were compared to load in that electric company's territory. The end result was the ESS is more likely show false positives for exceeding the four-percent cost cap. Calpine Solutions discussed this issue with Staff during a rulemaking workshop, including review of confidential data to demonstrate the problem. Calpine Solutions believes that Staff understands the problem, and Staff agreed with a revised calculation formula in Calpine Solutions' 2017 compliance report, which the Commission approved in Order No. 18-312. Therefore, this specific problem may not require a rule revision and may instead be resolved through a change to the calculation methodology used to implement that rule in annual compliance reports. Thus, Calpine Solutions has no specific recommendation to change the rules at this point.

Second, Calpine Solutions is concerned that the existing calculation method is likely to regularly result in an average cost of compliance for an ESS that exceeds the four-percent cost cap once the ESS is required to acquire bundled RECs beginning in compliance year 2021. This is particularly the case in the circumstance where the ESS procures predominantly bundled RECs

under contract of duration shorter than five years. In that circumstance, the cost of the qualifying electricity is compared to the short-term market price of energy at the market hub.¹ Based on current market conditions with very low short-term market prices, Calpine Solutions anticipates that the cost cap will likely be exceeded for energy associated with short-term bundled RECs. This problem has probably not arisen in the past where only electric companies have been subject to the bundled REC requirement because electric companies have met that requirement primarily through acquisition of bundled RECs with commitments of five years or longer. But for ESSs and their customers transacting in the wholesale market, the acquisition of bundled RECs under contract of duration shorter than five years is more likely. Calpine Solutions is still evaluating this issue and has no specific recommendation at this time. However, this is an important issue the Commission should consider in implementing cost cap for ESSs given the near-term requirement for ESSs to comply with a bundled REC requirement.

¹ OAR 860-083-0100(1)(e) provides the following:

“The incremental cost under ORS 469A.100(4) for short-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 delivered market purchases with a consistent term that is not qualifying electricity. The cost of non-qualifying electricity must be based on published prices for a nearby electricity trading hub. When choosing among nearby hubs, the one with transmission costs most similar to the short-term qualifying electricity must be used. Specific costs must be adjusted to account for the differences in all transmission-associated costs.”

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