

September 14, 2018

***VIA ELECTRONIC FILING***

Public Utility Commission of Oregon  
201 High Street SE, Suite 100  
Salem, OR 97301-3398

Attn: Filing Center

**RE: AR 610 Rulemaking Regarding the Incremental Cost of Renewable Portfolio Standard Compliance—PacifiCorp’s Comments**

As requested by Public Utility Commission of Oregon Staff, PacifiCorp d/b/a Pacific Power respectfully submits these comments to address policy questions to stakeholders distributed by Staff on August 15, 2018. PacifiCorp has been an active participant in this proceeding and appreciates the opportunity to provide these comments. In addition to specific questions posed by Staff, PacifiCorp provides additional proposed redlines to OAR 860-083-0100.

**Introduction**

PacifiCorp’s response to Staff’s questions regarding the incremental cost calculation are guided by the principle that the cost cap is intended to protect customers from the potential for excessive cost associated with compliance with the state’s renewable portfolio standard (RPS) policies. For consistency with that principle, the incremental cost calculation should be aligned with the likely impacts on the rates of Oregon retail electricity customers.

**Responses to Staff’s Questions**

- 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?**

The proxy plant methodology accurately and appropriately serves as the baseline for the incremental cost of compliance calculation. OAR 860-083-0010(30), however, should further clarify that the appropriate proxy plant selected for the incremental cost calculation should be the least cost non-qualifying resource from the relevant integrated resource plan (IRP) at the time of resource acquisition. However, in the event the relevant IRP does not include a non-qualifying resource, the qualifying electricity should be deemed as having no incremental cost to the RPS.

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

The incremental cost rules accurately reflect the appropriate categories of costs for the incremental cost of compliance calculation.

**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?**

There are no additional components of delivered cost that should be included in the calculation of incremental cost for long- or short-term resources.

**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?**

PacifiCorp supports calculating the incremental cost of compliance for qualifying electricity based on the year the electricity is generated or renewable energy certificates (RECs) are acquired. This change is critical to reflect the intent and language of the statute that states that incremental costs should be based on the “likely impacts on the rates of its Oregon retail electricity consumers.”<sup>1</sup> To be effective as a customer protection and cost containment mechanism, the incremental cost calculation should be aligned with the customer rate impacts of RPS compliance. Under the current framework, customers pay for qualifying electricity and RECs as they are generated or acquired, not when RECs are retired for compliance. Therefore basing the incremental cost on retirement of RECs does not provide any measure of impacts to customer rates of RPS compliance.

Accordingly, the incremental cost of compliance in a given year should include the cost of all eligible bundled RECs generated and delivered in a compliance year, plus the cost of unbundled RECs delivered in the Western Renewable Energy Generation Information System (WREGIS) to a utility in that compliance year (retired or banked, and regardless of vintage), plus any applicable Alternative Compliance Payments for a compliance year.

This approach is not only sensible from a policy perspective, but is also consistent with Oregon Administrative Rule (OAR) 860-083-0100(1)(c), which states that the incremental cost should be based on when qualifying electricity is delivered:

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<sup>1</sup> OAR 860-083-0100(1)(h).

“[T]he incremental cost under ORS 469A.100(4) 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.”

Similar to the treatment of bundled RECs, the cost of unbundled RECS should be included in the incremental cost of compliance in the year the unbundled REC is delivered to the utility in WREGIS. For example, if PacifiCorp signs a contract in 2018 to purchase 500,000 unbundled RECs, and the RECs are delivered over the next five years in increments of 100,000 RECs each year, only the cost of 100,000 unbundled RECs would be included in each year’s total incremental cost of compliance, for years 2019 through 2023. As identified above, OAR 860-083-0100(1)(c) requires the calculation of incremental cost to be based on delivery rather than retirement. Additionally, the year of delivery most often coincides with the year an unbundled REC is paid for by PacifiCorp. Therefore this approach is most consistent with the likely rate impacts to the utility’s customers. This approach also ensures bundled and unbundled RECs are treated consistently, and avoids having to make complicated determinations about the value of a REC at some point in the future.

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

To ensure that the incremental cost calculation is an effective measure of impacts to customer rates, PacifiCorp recommends calculating incremental cost once rather than updating the calculation very two years as currently required.<sup>2</sup> Changes to proxy resource costs over time have no impact on customer rates because they do not change the costs associated with the qualifying resource.

Rather than performing a continual recalculation, PacifiCorp proposes a one-time incremental cost calculation for eligible RPS resources, which reflect the cost of the qualifying resources at the time of the resource acquisition. The levelized incremental cost would still be based on a proxy methodology, but rather than being updated with each compliance report or implementation plan, the utility would only be required to calculate the levelized cost of each qualifying resource one time. The inputs (such as forward gas price curves, transmission, capital, operations and maintenance) for the renewable resource would be based on the information available from the time of the resource’s acquisition, and compared to the appropriate proxy plant from the relevant IRP at the time the resource is acquired.

Recalculating the company’s incremental costs to determine whether it exceeds four percent of its annual revenue requirement is intended to act as a customer protection

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<sup>2</sup> OAR 860-083-0100(9)(f).

mechanism in that a utility is not required to comply with the RPS if the incremental costs exceed that four percent threshold. However, the four percent cost cap acts as a cost containment mechanism only as it relates to future acquisitions for RPS compliance; once an RPS-compliant resource is incorporated into rates, customers will continue to pay for that resource, regardless of whether the cost cap is exceeded. The costs of the resource at the time of the acquisition, as compared to the relevant proxy resource at the time of acquisition, is the truest reflection of a resource's incremental cost.

A continual recalculation of the incremental costs to determine whether it exceeds four percent of a utility's annual revenue requirement is not actually reflective of the likely rate impacts on customers. Additionally, implementing a one-time cost calculation will better allow utilities to plan against the cost cap, as the cost of resources will not be in flux or dependent on external forces such as gas prices.

Additionally, at least one other jurisdiction with renewable portfolio standards—Washington—requires a one-time cost calculation consistent with PacifiCorp's proposal here.<sup>3</sup>

**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?**

The four percent cost limit is intended to be a customer protection mechanism to shield customers from the burden of potentially excessive costs of RPS compliance. As noted above, for the four percent cost limit to be meaningful as a cost containment mechanism, the incremental cost calculation must be modified to better reflect actual customer impacts. What happens when the cost limit is exceeded should also be designed to protect customers against excessive cost increases. Under § 469A.100(1), utilities are not required to comply with the RPS to the extent the incremental cost of compliance, the cost of unbundled renewable energy certificates and the cost of alternative compliance payments exceed the four percent cost cap.

Assuming that the incremental cost calculation is modified to reflect actual rate impacts of RPS compliance, the Commission could temporarily relieve the utility from its requirement to procure additional renewable resources or retire RECs for a period of time.

**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?**

Please see above response to question six.

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<sup>3</sup> WAC 480-109-210.

- 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?**

When planning for RPS compliance, PacifiCorp looks at the cost of compliance on both a long- and short-term basis. From an incremental cost perspective, this means PacifiCorp considers not only the current cost of a resource, but the benefits of minimizing incremental costs over the long-term. This may include taking advantage of low-cost opportunities in the near-term, to hedge against potentially higher costs in a future compliance year.

To minimize the probability of exceeding the four percent cost cap, the Renewable Portfolio Implementation Plan should be aligned with the IRP, which is based on a least-cost-least-risk planning approach.

- 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?**

Please see above response to question four. The cost of unbundled RECs should be included in the assessment of the four percent cost cap at the time the REC is delivered to the utility in WREGIS (which is also the year in which the REC is paid for). The legal and policy justification for this approach is: 1) aligning the incremental cost of compliance calculation with the rules that require the costs to represent the most likely rate impact to customers; and, 2) creating consistency in how bundled and unbundled RECs are treated. As stated in the response to question four, (OAR) 860-083-0100(1)(c) requires the incremental cost to be based on qualifying electricity *delivered* in a compliance year.

**Other Category of Question:**

- 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?**

PacifiCorp has enclosed the attached proposed redlines to OAR 860-083-0100 along with these comments.

PacifiCorp appreciates the opportunity to provide these comments and responses and looks forward to continuing its active participation in this proceeding.

AR 610  
Public Utility Commission of Oregon  
September 14, 2018  
Page 6

Respectfully submitted this 14<sup>th</sup> day of September, 2018.

A handwritten signature in blue ink, appearing to read "Dustin T. Till", with a long horizontal line extending to the right.

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## Proposed Redlines

OAR 860-083-010 and 860-083-0100

## Chapter 860

### Division 83 RENEWABLE PORTFOLIO STANDARDS

#### 860-083-0005

##### **Scope and Applicability of Renewable Portfolio Standards Rules**

(1) OAR 860-083-0005 through 860-083-0500 (the “Renewable Portfolio Standards rules”) establish rules governing implementation of Renewable Portfolio Standards for electric companies and electricity service suppliers provided under ORS 469A.005 through 469A.210.

(2) Upon request or its own motion, the Commission may waive any of the Division 083 rules for good cause shown. A request for waiver must be made in writing, unless otherwise allowed by the Commission.

**Statutory/Other Authority:** ORS 756.040, 757.659 & 469A.065

**Statutes/Other Implemented:** 469A.065

##### **History:**

PUC 6-2011, f. & cert. ef. 9-14-11

PUC 8-2009, f. & cert. ef. 8-5-09

PUC 7-2009, f. & cert. ef. 6-25-09

#### 860-083-0010

##### **Definitions**

As used in division 083:

(1) “Aggregate costs” means costs included in ORS 469A.100(4)(c), (d), and (e) that are applicable to more than one generating facility. Aggregate costs also include physical or financial costs for assets to replace interruptions of generation or deliveries of short-term or long-term qualifying electricity, short-term electricity that is not qualifying, or electricity from proxy plants.

(2) “Alternative compliance rate” has the meaning given that term in ORS 469A.180(2).

(3) “Amortization” means spreading the initial estimates of capital costs of long-term qualifying electricity or a proxy plant at the discount rate over an initial amortization period. For replacement costs that were not included in the initial estimate of capital or operating costs for qualifying electricity, amortization means spreading such replacement costs at the discount rate over the remainder of the current amortization period for the associated qualifying electricity. For significant investments in facilities producing qualifying electricity, amortization means spreading such significant investment costs and the remaining unamortized investment of the facility at the discount rate over the entire expected useful life of the facility.

(4) “Annual revenue requirement” has the meaning given that term in ORS 469A.100(3).

(5) “Applicable filing for an electric company” means an implementation plan under ORS 469A.075, a filing for a change to rates for retail electricity consumers that includes costs of qualifying electricity in rates for the first time, or a compliance report under ORS 469A.170. Applicable filing does not include filings to change rates before 2011.



(6) "Applicable filing for an electricity service supplier" means a compliance report under ORS 469A.170.

(7) "Average cost of compliance" for an electricity service supplier means its total cost of compliance divided by its retail sales in megawatt-hours in the service areas of electric companies subject to ORS 469A.052 for a compliance year.

(8) "Average retail revenue" for an electric company means the annual revenue requirement for a compliance year as determined in OAR 860-083-0200 divided by the forecast of retail sales in megawatt-hours used to determine the annual revenue requirement.

(9) "Banked renewable energy certificate" has the meaning given to that term in ORS 469A.005(1).

(10) "Bundled renewable energy certificate" has the meaning given that term in ORS 469A.005(3).

(11) "Compliance year" has the meaning given that term in ORS 469A.005(4).

(12) "Cost of bundled renewable energy certificates" means the levelized incremental cost of the qualifying electricity associated with the bundled renewable energy certificate.

(13) "Cost limit for an electric company" has the meaning given that term in ORS 469A.100.

(14) "Discount rate" means the nominal after-tax marginal weighted-average cost of capital.

(15) "Electric company" has the meaning given that term in ORS 757.600.

(16) "Electricity service supplier" has the meaning given that term in ORS 757.600.

(17) "Extended amortization period" means the period or periods after an initial amortization period where a facility will continue to provide qualifying electricity.

(18) "Implementation plan" has the meaning given that term in ORS 469A.075.

(19) "Incremental cost of compliance" means the cost of bundled renewable energy certificates ~~used for compliance for a compliance year~~ as calculated pursuant to OAR 860-083-0100.

(20) "Initial amortization period for an electric company-" means the amortization period for new long-term qualifying electricity or a corresponding proxy plant established in the beginning year of the new long-term qualifying electricity. If the qualifying electricity is acquired through a contract, the length of the amortization period is the term of the agreement. For facilities owned by an electric company and for the corresponding proxy plant, the initial amortization period is based on the electric company's most recent depreciation study approved by the Commission for the type of generating facility.

(21) "Initial amortization period for an electricity service supplier" for facilities that produce qualifying electricity means a period based on the expected useful lifetime of the facility. If the qualifying electricity is acquired through a contract, the length of the amortization period is the term of the agreement. For proxy plants for an electricity service supplier, the initial amortization period means the period for a proxy plant used by the electric company subject to ORS 469A.052 in whose service area it made the most retail sales in megawatt-hours over the five calendar years preceding the compliance year.

(22) "Integrated resource plan" means the long-term resource plan filed by an electric company that is subject to Commission acknowledgment as is generally set forth in Commission Order Nos. 07-002, 07-

047 and 08-339. Integrated resource plan does not include an implementation plan filed under ORS 469A.075.

(23) "Interruptions of generation or deliveries" include, but are not limited to, planned and unplanned generating and transmission facility outages and derates, natural gas delivery interruptions, and reduced generation due to weather or curtailments.

(24) "Levelized cost for long-term qualifying electricity and the corresponding proxy plant" means the present value of amortized capital costs and all other costs amortized at the discount rate over the time horizon of the qualifying electricity, based on the time the qualifying electricity resource is acquired. Levelized cost also includes an estimate of the net present value of costs and benefits for the qualifying electricity and the corresponding proxy plant likely to occur after the end of the applicable time horizon, amortized over the time horizon at the discount rate.

(25) "Levelized cost for short-term qualifying electricity" means costs levelized over the term of the contract.

(26) "Levelized cost for short-term non-qualifying electricity" means costs levelized over a term consistent with the duration of the contract for qualifying electricity resource life.

(27) "Long-term qualifying electricity" means electricity from facilities owned by an electric company or electricity service supplier that generate qualifying electricity and qualifying electricity purchased pursuant to contracts of five years or more in duration.

(28) "New qualifying electricity for an electric company" means qualifying electricity when the costs are first included in an applicable filing for a compliance year. New qualifying electricity may be from new generating facilities, generating facilities with significant new investments, or new contracts to purchase electricity.

(29) "New qualifying electricity for an electricity service supplier" means qualifying electricity from new generating facilities, generating facilities with significant new investments, or new contracts to purchase electricity that the supplier plans to use to serve customers of electric companies subject to ORS 469A.052 and are first operational in a compliance year.

(30) "Proxy plant" means, unless otherwise specified by the Commission, ~~a base-load combined-cycle natural-gas-fired-generating-facility that is used to estimate the costs of the least-cost~~ non-qualifying electricity resource identified in the relevant integrated resource plan at the time of the resource's acquisition. The proxy plant and electricity corresponding to new long-term qualifying electricity resource must share with the same beginning amortization year, ~~over an equivalent duration of time and plant life~~.

(31) "Qualifying electricity" has the meaning given to that term in ORS 469A.005(9).

(32) "Renewable energy certificate" has the meaning given to that term in OAR 330 160-0015(8) (effective September 3, 2008).

(33) "Renewable energy source" has the meaning given to that term in ORS 469A.005(10).

(34) "Replacement costs" means capital costs that have the effect of replacing initial capital costs for long-term qualifying electricity or proxy plants.

(35) "Retail electricity consumer" has the meaning given to that term in ORS 469A.005(11).

(36) "Short-term qualifying electricity" means qualifying electricity purchased pursuant to contracts of less than five years in duration.

(37) "Significant investments" means investments in a compliance year that if the investments were amortized over the remainder of the amortization period and combined with cost changes associated with such investments, they would increase the levelized cost of the facility by more than 10 percent. Such estimates do not include replacement costs that were included in the initial estimates of capital or operating costs.

(38) "Specific costs" means the costs for electricity plus the costs for transmission delivery and substations that can reasonably serve only a single generating facility or contract.

(39) "Total cost of compliance" for an electric company or electricity service supplier means the cumulative cost of:

(a) The incremental cost of compliance;

(b) The cost of unbundled renewable energy certificates used to meet the applicable renewable portfolio standard for a compliance year; and

(c) The cost of alternative compliance payments used to meet the applicable renewable portfolio standard for a compliance year.

(40) "Unbundled renewable energy certificate" has the meaning given that term in ORS 469A.005(12).

**Statutory/Other Authority:** ORS 756.040, 757.659 & 469A.065

**Statutes/Other Implemented:** ORS 469A.005 - 469A.210

**History:**

PUC 8-2009, f. & cert. ef. 8-5-09

#### **860-083-0100**

##### **Incremental Costs**

1(a) Incremental cost estimates for an electric company must be based on the likely impacts on the rates of its Oregon retail electricity consumers.

(b) The incremental cost under ORS 469A.100(4) is the difference between the levelized annual delivered cost of the qualifying electricity and the levelized annual cost of an equivalent amount of electricity delivered from the corresponding proxy plant in a compliance year.

(c) Incremental cost estimates for an electric company must be based on a one-time cost calculation for each generation source of qualifying electricity at the time of the facility's acquisition, or for historical acquisitions, the best information available from the time of the acquisition. For generation sources which have not yet reached commercial operation, the incremental cost calculation should be based on the best information available at the time the calculation is performed. The incremental cost for such generation sources should be updated in the next compliance report or implementation plan filed after the facility reaches commercial operation.

(2) Each electric company must forecast the levelized incremental cost of long-term qualifying electricity in the following manner:

(a) For each generation source of qualifying electricity, the electric company must estimate the delivered cost of qualifying electricity over the life of the qualifying electricity source. Delivered cost includes

~~aggregate costs and costs specific to a generating facility or contract. Costs include, but are not limited to, those specified in ORS 469A.100(4). Capital costs must be amortized.~~

~~(1)(a)(b)~~ For amortization and levelization calculations, an electric company must use the discount rate used in ~~its~~ the most recently ~~acknowledged filed or updated~~ integrated resource plan at the time of the qualifying resource's acquisition, unless otherwise specified by the Commission.

~~(c)~~ For amortization and levelization calculations, an electricity service supplier must use the discount rate applicable to the electric company in whose service area it made the most retail sales in megawatt-hours over the five calendar years preceding the compliance year.

~~(e) The incremental cost under ORS 469A.100(4) 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.~~

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(d) The time horizon for long-term qualifying electricity and for the corresponding proxy plant must be no longer than the amortization period of the qualifying electricity and must be at least as long as the lesser of:

(A) The amortization period of the qualifying electricity; or

(B) The period from the beginning year of the amortization period of the qualifying electricity until 20 years after the current compliance year.

(e) 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.

(f) Levelized annual delivered costs for qualifying electricity and non-qualifying electricity are specific costs plus applicable shares of aggregate costs.

(g) Aggregate and specific costs for interstate electric companies must reflect interstate allocations of costs.

~~(h) Incremental cost estimates for an electric company must be based on the likely impacts on the rates of its Oregon retail electricity consumers.~~

Commented [A2]: Moved up, now 1(a)

~~(i) Incremental costs are deemed to be zero for qualifying electricity from generating facilities or contracts that became operational before June 6, 2007 and for certified low-impact hydroelectric facilities under ORS 469A.025(5).~~

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~~(2) Each electric company must forecast the levelized incremental cost of long-term qualifying electricity in the following manner:~~

Commented [A4]: Moved up to reorganize

~~(a) For each generation source of qualifying electricity, the electric company must estimate the delivered cost of qualifying electricity for each year over the time horizon life of the qualifying electricity source. Delivered cost includes aggregate costs and costs specific to a generating facility or contract. Costs include, but are not limited to, those specified in ORS 469A.100(4). Capital costs must be amortized.~~

Commented [A5]: Moved

~~(b) The levelized annual cost of qualifying electricity delivered in the compliance year must be based on all costs that will be included in rates through the qualifying electricity's time horizon.~~

Commented [A6]: Moved down

~~(hc)~~ Aggregate costs must be estimated as the incremental cost to the utility system for all qualifying electricity.

~~(di)~~ Aggregate transmission costs must be allocated proportionately to existing and planned generating facilities that will reasonably be served by the transmission facilities.

~~(je)~~ If an electric company anticipates that it will have firming and shaping services available for sale for a compliance year, the company may not use rates in its Open Access Transmission Tariff approved by the Federal Energy Regulatory Commission as the basis for the firming or shaping portion of aggregate costs. In such case, the electric company should use the actual or forecasted cost of supplying or purchasing firming and shaping services as the basis for such costs, based on the best information available at the time of the acquisition. If an electric company anticipates it will not be able to sell firming and shaping services due to its use of such services, the company may use its approved Open Access Transmission Tariff as the basis for such costs.

~~(k)~~ Generation forecasts utilized in calculating a one-time levelized incremental cost of qualifying electricity should be based on the best information available at the time of the acquisition.

(3) Each electricity service supplier must forecast the cost of long-term qualifying electricity it plans to use to serve the service areas of electric companies subject to ORS 469A.052 consistent with section (2) of this rule.

~~(45) The levelized annual cost of qualifying electricity delivered in the compliance year must be based on all costs that will be included in rates through the qualifying electricity's time horizon.~~

~~(54)~~ Updates of amortization periods are required for compliance reports described in ORS 469A.170 and implementation plans described in ORS 469A.075 under any of the following circumstances:

(a) If a generation facility that was previously included in a compliance report has significant investment costs in a compliance year, all qualifying electricity from the facility is new qualifying electricity under this rule with an amortization period based on the entire expected useful life of the facility, considering such investments. Consequently, the amortization period of the corresponding proxy plant must also be extended to be equivalent to that of the qualifying electricity facility. Except as provided in subsections (132)(a) and (b) of this rule, costs for each such facility must be updated in the next regularly scheduled compliance report and implementation plan.

(b) Except as provided in subsections (132)(a) and (b) of this rule, if a generating facility produces qualifying electricity after all capital costs have been amortized, the electric company must update the next regularly scheduled compliance report and implementation plan to establish an extended amortization period. The extended amortization period must be based on the expected remaining useful life of the facility. Qualifying electricity from the facility must be treated in the same manner as new qualifying electricity. Additional extended amortization periods may be added.

~~(c) The amortization period for a generation facility may change as provided in subsections (5)(a) or (b) or (67)(g) of this rule. Otherwise, the amortization period of the facility may not change.~~

~~(de)~~ Each electricity service supplier must update amortization periods for long-term qualifying electricity it plans to use to serve the service areas of electric companies subject to ORS 469A.052 consistent with subsections (45)(a), ~~and (b)~~ and (c) of this rule.

~~(5d) The amortization period for a generation facility may change as provided in subsections (45)(a) or (b) or (6)(g) of this rule. Otherwise, the amortization period of the facility may not change.~~

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~~(63) Incremental costs are deemed to be zero for qualifying electricity from generating facilities or contracts that became operational before June 6, 2007 and for certified low-impact hydroelectric facilities under ORS 469A.025(5).~~

(76) For each ~~compliance year~~ new qualifying resource, except as provided in subsections (132)(a) and (b) of this rule, each electric company must establish a new proxy plant for use in estimating the cost of non-qualifying electricity corresponding to new long-term qualifying electricity with the same beginning amortization year. New proxy plant costs must be based on relevant information in the most recently filed or updated integrated resource plan at the time a new long-term qualifying generating source is acquired, unless there have been material changes since the most recent of such filings. Proxy plant costs must be estimated in the following manner:

(a) For each new proxy plant, each electric company must provide the estimated heat rate, availability factor, operation and maintenance costs per megawatt-hour, annualized capital replacement costs per megawatt-hour, and the initial capital costs per megawatt from the time of resource acquisition. The initial capital cost estimate must comply with the following requirements:

(A) Adjustment must be made for price escalation or de-escalation based on the initial year of the proxy plant and the applicable year of the estimate. Such adjustment may be based on applicable construction cost indexes or other published sources; and

(B) Initial capital costs must be amortized.

(b) Each electric company must estimate the costs of factors listed in subsection (76)(a) of this rule and other elements of the proxy plant that affect its costs for each year of the time horizon of the proxy plant. Estimates must account for expected degradation of the heat rate, capacity, and other elements affecting costs. Forecasts of fuel prices must include cost adders based on ~~current~~ regulation of greenhouse gas emissions or such regulations that are known or reasonably expected to be implemented in the relevant time frame at the time of resource acquisition.

(c) Each electric company must allocate aggregate costs for proxy plants in a manner consistent with the allocation of aggregate costs for qualifying electricity.

(d) For calculating the incremental cost for long-term qualifying electricity from a specific generating source, annual aggregate and specific costs for the corresponding proxy plant must be leveled over ~~the~~ an equivalent time horizon as that of the qualifying electricity source.

(e) The average cost per megawatt-hour for each applicable year of the applicable time horizon ~~implementation plan~~ is the leveled cost in subsection (76)(d) of this rule divided by the expected base-load electricity production of the proxy plant for that year.

(f) The cost of equivalent non-qualifying electricity is the estimated average cost per megawatt-hour of the proxy plant in subsection (67)(e) of this rule for each year multiplied by the amount of corresponding long-term qualifying electricity that ~~was produced, or~~ is expected to be produced, in each applicable year of the applicable time horizon ~~implementation plan~~.

(g) If corresponding long-term qualifying electricity is produced or is planned to be produced after a proxy plant's initial amortization period, a new amortization period for the qualifying electricity must be established based on the expected remaining useful life of the generating facility. Any remaining unamortized investment for the facility associated with the qualifying electricity must be amortized over

the new amortization period. Qualifying electricity from the facility must be treated in the same manner as new qualifying electricity.

(h) If the initial amortization period for new long-term qualifying electricity is longer than the initial amortization period for the corresponding proxy plant, the electric company must estimate the year-by-year replacement capital, operation and maintenance expenditures necessary to extend the lifetime of the proxy plant to a period equal to or greater than the amortization period of the qualifying electricity. In such case, initial and replacement capital costs of the proxy plant must be amortized over its extended lifetime before the proxy plant costs are leveled in subsection (7)(d) of this rule. Fuel costs must be estimated for each year of the extended lifetime of the proxy plant. A proxy plant ~~whose with a lifetime has been~~ extended under this subsection may be used as the corresponding proxy plant for all new long-term qualifying electricity with the same beginning amortization year.

~~(i) In the event the corresponding integrated resource plan for a new long-term qualifying resource does not include a non-qualifying resource, the incremental cost for that resource should be zero.~~

~~(j) Each electricity service supplier must forecast the cost of proxy plants consistent with subsections (7)(a) through (h) of this rule for plants corresponding to long-term qualifying electricity it plans to use to serve the service areas of an electric company subject to ORS 469A.052.~~

~~(7) To the extent practical, forecasts of proxy plant fuel prices in compliance reports and implementation plans must be based on the most recent the forecast filed in an avoided cost proceeding under ORS 758.525(1) or filed or updated in in the corresponding proxy resource's integrated resource planning proceeding per Commission orders. Fuel prices must include fuel transportation costs to an appropriate location for the proxy plant. Forecasts of fuel costs made by electric companies and electricity service suppliers for each new proxy plant must use one of the following methods when a new proxy plant is established:~~

~~(a) Proxy plant fuel prices may be based on financially firm, long-term fixed prices for fuel for the period such contracts are available. After such period, the method in subsection (8)(b) of this rule must be used; or~~

~~(b) Proxy plant fuel prices may be based on forecasts of spot prices for fuel at an appropriate market trading hub plus an estimate of the cost of hedging as much fuel price risk as can be reasonably achieved for remainder of the time horizon of such plant.~~

~~(8) To the extent practical, forecasts of biomass fuel prices in compliance reports and implementation plans must be based on the most recently filed or updated integrated resource plan at the time the generation source is acquired. Fuel costs for long-term qualifying electricity from biomass sources specified in ORS 469A.025(2) must be forecast in a manner that reduces fuel price risk as much can be reasonably achieved through long-term contracts, hedging, or other mechanisms for the time horizon of the generation resource.~~

~~(9)(a) If fuel prices for a proxy plant or biomass plant were forecasted based on a method similar to the method in subsection (7)(b) of this rule, an electric company must update plant costs for actual spot fuel prices, including actual cost adders from regulation of greenhouse gas emissions, in each implementation plan and compliance report.~~

~~(b) If fuel prices are updated as described in subsection (9)(a) of this rule, actual fuel costs must include hedging costs as described in subsection (7)(b) or section (8) of this rule.~~

~~(c) For the period fuel prices for a proxy plant or biomass plant were forecasted based on a method similar to the method in subsection (7)(a) of this rule, fuel costs are not updated, except fuel costs are~~

~~updated for additional actual costs from regulation of greenhouse gas emissions if such costs were not included in the contract referenced in subsection (7)(a) of this rule.~~

~~(d) In its implementation plans and compliance reports, an electric company must update for amounts of actual qualifying electricity.~~

~~(e) To the extent that forecasts of the amount of qualifying electricity are used in a compliance report, such forecasts, to the extent practicable, should be based on the most recently filed implementation plan, unless section (10) or (11) of this rule applies.~~

~~(f) In its compliance reports, an electricity service supplier must include updated estimates of the incremental cost of long-term qualifying electricity at least every two years consistent with subsections (9)(a) through (c) of this rule for qualifying electricity it plans to use to serve the service areas of an electric company subject to ORS 469A.052.~~

~~(9)10~~ If an electric company or electricity service supplier discovers a significant error in its incremental cost estimates, it must update incremental cost estimates in the next applicable filing.

~~(10)4~~ If ~~an electric company or electric service supplier reaches the the number of renewable energy certificates used for compliance or the amount of alternative compliance payments is reduced due to a~~ cost limit in ORS 469A.100, ~~the electric company or electricity service supplier~~ must review the methodologies used to estimate the levelized costs of proxy plants and long-term qualifying electricity. If a systematic error is discovered, all such errors must be corrected in estimates of the incremental costs of qualifying electricity in the applicable compliance report. If such a correction is made, the correct total number of certificates and amount of alternative compliance payment, if any, must be used for the compliance year.

~~(11)2~~ If the cost limit specified in ORS 469A.100(1) is expected to reduce the number of renewable energy certificates used for compliance or the amount of alternative compliance payments for any forecasted compliance year covered by an implementation plan, the electric company must review the methodologies used to estimate the levelized costs of proxy plants and long-term qualifying electricity. If a systematic error is discovered, all such errors must be corrected in estimates of the incremental cost of qualifying electricity in the applicable implementation plan.

~~(13)2~~(a) Except as provided in section (140) of this rule, if ~~a~~ new long-term qualifying electricity ~~source~~ in a compliance year, including qualifying electricity treated ~~in the same manner~~ as new qualifying electricity in subsections (45)(b) and (76)(g) of this rule, ~~totals equals~~ less than 20 megawatts of capacity, the incremental cost for such long-term qualifying electricity is not required to be included in compliance reports or implementation plans. Such long-term qualifying electricity may be included in a compliance report for purposes of determining compliance with the applicable renewable portfolio standard under ORS 469A.052 or 469A.065.

(b) When the capacity of ~~a~~ qualifying electricity ~~resource~~ described in subsection (123)(a) of this rule equals or exceeds 20 megawatts in a compliance year or the cumulative capacity of qualifying electricity in subsection (1312)(a) of this rule exceeds 50 megawatts, the incremental cost of all such qualifying electricity must be included in the compliance report for the compliance year and in compliance reports and implementation plans filed after such compliance report.

~~(c) The amortization periods for the qualifying electricity in subsections (13)(a) and (b) of this rule must begin at the same time as the latest operational date for the qualifying electricity. Costs must be adjusted for price escalation or de-escalation based on the beginning amortization year and actual initial years for such qualifying electricity. Adjustments may be based on applicable construction costs indexes or other published sources.~~

Commented [A8]: Not applicable with one time calc



~~(d) A new proxy plant with the same beginning amortization year as the qualifying electricity in subsection (13)(c) of this rule must be used to estimate the non-qualifying costs corresponding to such qualifying electricity.~~

**Statutory/Other Authority:** ORS 756.040, 757.659 & 469A.065

**Statutes/Other Implemented:** ORS 469A.100

**History:**

PUC 8-2009, f. & cert. ef. 8-5-09

**Commented [A9]:** Remove, duplicative, covered in section 2 and 4(a)