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September 14, 2018

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Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Ste. 100
PO Box 1088
Salem, OR 97308-1088

Re: **AR 610 – Incremental Cost of Renewable Portfolio Standard Compliance
Rulemaking**

Filing Center:

Enclosed are the comments of Portland General Electric Company in response to Staff's August 15th questions. PGE appreciates the opportunity to provide commentary and we look forward to working with Parties on this rulemaking.

Should you have any questions or require further information, please call me at 503-464-7805.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stefan Brown", is written over a light blue rectangular background.

Stefan Brown
Manager, Regulatory Affairs

SB:np

Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON.**

AR 610

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON Rulemaking regarding the
incremental cost of Renewable Portfolio
Standard Compliance.

**COMMENTS OF PORTLAND
GENERAL ELECTRIC
COMPANY**

Portland General Electric Company (PGE) respectfully submits these comments in response to Staff's request that stakeholders review and submit responses to the questions sent by Staff on August 15, 2018. PGE appreciates the opportunity to provide comments in response to Staff's questions.

Introduction

At PGE, we are committed to helping our customers and the communities we serve achieve a clean energy future and providing leadership to advance the state's energy goals. As Oregon's largest electric utility, PGE is leading an energy transformation that will harness the power of clean and renewable resources on behalf of our customers. PGE has collaborated with environmental groups and customer advocates to work towards a greener future for Oregon by setting a renewable energy target of 50 percent by 2040 and establishing a plan to transition Oregon off coal-fired electricity by 2035. In the near term, PGE is continuing to pursue renewable resources to meet our customers' needs and decarbonize our portfolio. As PGE meets a growing share of its customer energy needs with renewables and as technological progress offers more competitive clean renewable and capacity options, it becomes increasingly important

that the incremental cost calculation rules appropriately reflect the true “incremental” cost of renewable resources relative to non-renewable alternatives for meeting PGE’s resource needs.

Responses to Staff’s Questions

Incremental Cost of Compliance

The Commission seeks comment on how we might change our rules to more accurately capture the incremental cost of RPS compliance.

In ORS 469A.100(4), the incremental cost of compliance is defined as follows:

“...the incremental cost of compliance with a renewable portfolio standard is the difference between the levelized annual delivered cost of the qualifying electricity and the levelized annual delivered cost of an equivalent amount of reasonably available electricity that is not qualifying electricity. For the purpose of this subsection, the commission or the governing body of a consumer-owned utility shall use the net present value of delivered cost, including:

- a) Capital, operating and maintenance costs of generating facilities;
- b) Financing costs attributable to capital, operating and maintenance expenditures for generating facilities;
- c) Transmission and substation costs;
- d) Load following and ancillary services costs; and
- e) Costs associated with using other assets, physical or financial, to integrate, firm or shape renewable energy sources on a firm annual basis to meet retail electricity needs.”¹

The corresponding rules that may need to be changed include, but are not limited to:

- OAR 860-083-0010(19) defining incremental cost of compliance;
- OAR 860-083-0010(39) defining total cost of compliance;
- OAR 860-083-0100(2) describing cost categories included in the forecast of incremental cost.

With this as background, Staff requests that Stakeholders comment on the following questions:

¹ ORS 469A.100. https://www.oregonlegislature.gov/bills_laws/ors/ors469a.html

- 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 current proxy plant methodology assumes renewable energy acquisitions would replace new thermal plants, and the incremental cost calculations compare the qualifying renewable energy solely to the costs of new thermal plants. In this time of significant change and uncertainty within the electric utility industry and markets, the rules should recognize that the equivalent non-qualifying electricity may not be supplied by new thermal resources. PGE believes that leveraging the capacity and energy value that is evaluated in the existing Integrated Resource Planning (IRP) structure rather than the existing proxy plant methodology as the baseline for the incremental cost of compliance calculation provides the necessary framework and flexibility to ensure that incremental costs are aligned with true cost impacts to customers and can evolve with the changing market conditions. Using the IRP reduces the potential for cost and benefit calculation/modeling discrepancies and streamlines workflows since the current rules require that a number of cost components be consistent with the most recently approved IRP. By using the IRP in lieu of the proxy plant methodology, it would allow the calculation to be updated with each IRP, ensuring that the interests of present and future customers are balanced, that action plans that manage risk and uncertainty as reflected, as well as allow for course corrections as the electric industry continues to evolve.

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

Yes, PGE feels that the current incremental cost rules accurately reflect the appropriate categories of cost 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?**

No. However, the rules should not preclude the inclusion of additional costs that may be incurred as a result of market transformation.

- 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?**

PGE is supportive of a change in calculating a utility's incremental cost of RPS compliance based on the cost of RECs generated in the compliance year, rather than the current method, which calculates this cost based on RECs retired for compliance in the

compliance year. The current methodology creates an arbitrary regulatory incentive to optimize the retirement of RECs based on incremental costs that have no relationship to costs incurred by customers in a given year. The incremental cost calculation is currently done outside of the IRP process, disconnected from current market conditions and risks becoming dated. PGE is supportive of this approach conditioned on adoption of the above recommendation of moving the calculation of the proxy resource into the IRP process.

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

Yes, the rules should be amended to reflect an adjustment in the proxy plant methodology to ensure that the calculation stays relevant in a changing marketplace. PGE is also supportive of amending the rules to change the calculation of incremental cost from when RECs are retired to when they are generated.

Four Percent Cost Cap:

The Commission seeks comment on how our rules might be amended to include more guidance about the process when the four percent cap is reached.

ORS 469A.100(1) states the following about the four percent cost cap:

“Electric 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 electric utility’s annual revenue requirement for the compliance year.”²

Staff requests that Stakeholders comment on the following questions:

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?

Nothing, as the language in the statute appropriately places the optionality for compliance with the utility. If appropriate, the utility can choose to exercise the relief afforded when the four percent cost limit is reached. PGE believes that the current rules sufficiently address this scenario.

² ORS 469A.100. https://www.oregonlegislature.gov/bills_laws/ors/ors469a.html

- 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?**

PGE has no specific recommendations at this time. PGE supports continued flexibility in complying with RPS requirements.

- 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?**

The current rules sufficiently address this scenario.

- 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?**

Unbundled RECs should offset bundled RECs for purposes of the incremental cost calculation in the year that they are retired for compliance (rather than purchased). This is consistent with AWEC's proposal and is supported by language in ORS 469A.100(4), which states that "...the incremental cost of compliance with a renewable portfolio standard is the difference between the levelized annual delivered cost of the qualifying electricity and the levelized annual delivered cost of an equivalent amount of reasonably available electricity that is not qualifying electricity." This rule focuses on delivered costs, which is consistent with PGE's recommendation.

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?**

PGE has no position on this issue at this time, however, PGE reserves the right to provide later commentary on this question.

Conclusion

PGE appreciates Staff's questions and the opportunity to provide comments during this rulemaking. PGE recommends Staff and the Commission adopt rules that leverage the existing IRP process, which provides a helpful framework and the necessary flexibility to ensure that

incremental costs are aligned with true cost impacts to customers and can evolve with changing market conditions and technological progress.

Dated this 14th day of September 2018

Respectfully Submitted,

/s/ Stefan Brown

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