ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: October 3, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____Upon Approval____

DATE: September 26, 2023

TO: Public Utility Commission

FROM: Madison Bolton

THROUGH: Caroline Moore and Scott Gibbens **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 1953)
Green Energy Affinity Rider, Schedule 55, Phase 2, CSO Option, rate, and credit calculation for 120 MW of capacity allotted to QTS Investment Properties Hillsboro, LLC.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (OPUC or Commission) approve Portland General Electric's (PGE or the Company) rate and credit calculations related to 120 MW of its Phase 2, Customer Supply Option (CSO) offering and find that it is in compliance with Order No. 21-091 and PGE's Schedule 55.

DISCUSSION:

Issue

Whether the Commission should approve the rate and credit calculations for 120 MW of the Green Energy Affinity Rider (GEAR) Phase 2 CSO tranche.

Applicable Rule or Law

ORS 757.205 requires that every public utility file with the Commission all rates, tolls, and charges which are established and in force for any service performed by it within the state. All rules and regulations that affect rates charged or to be charged must also be filed.

Analysis

Background
On April 12, 2018, the Company filed a proposal for its GEAR program, a voluntary renewable energy tariff (VRET). The Commission approved Phase 1 of the GEAR program in Order No. 19-075. On March 25, 2020, PGE filed a customer letter of intent in UM 1953 indicating that the entire 300 MW capacity under the GEAR Phase 1 cap was full. PGE requested an increase of 200 MW for Phase 2 of the program. The Commission approved the expansion in Order No. 21-091, with the distinction that 100 MW would be allocated for the PGE supplied option (PSO) and 100 MW for the CSO.[1] Order No. 21-091 also requires that PGE submit rate and credit calculations to Staff for review.

On September 17, 2021, PGE and QTS Investment Properties Hillsboro, LLC (QTS) jointly filed to approve even more additional capacity in the CSO portion of the GEAR program to avoid taking up the remaining 100 MW, given the size of QTS' load.[2] The Commission approved the petition, authorizing an additional 250 MW.[3] Order No. 21-468 also specified that a waiver of the competitive bidding rules (CBRs) would be required pursuant to Oregon Administrative Rule Chapter 860, Division 89. The Commission waived the CBRs for good cause shown in Order No. 22-243.

QTS plans to utilize two resources to meet the 250 MW of capacity. This memo addresses the first resource, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, which has a capacity of 120 MW and is located in Morrow County, Oregon. QTS is in the process of identifying the second resource and will submit the accompanying rate and credit calculations after the resource is contracted.

Schedule 55 sets forth the formula used to determine rates for subscribers, and, when the Company enters into a contract with participants in Phase 2 of the GEAR, PGE must file the specific rate and credit calculations for review with the Commission. Upon review, Staff makes a recommendation to the Commission at a public meeting regarding compliance with the Company's Schedule 55 and Order No. 21-091.

Rate Calculation and Customer Agreement
Staff has reviewed the credit methodology and rate calculation and finds it complies with the Commission-approved methodology as set forth in PGE's Schedule 55 and Order

[1] The CSO allow certain qualifying customers to bring their own renewable energy resource to the GEAR program, whereas PGE finds the resource in the PSO.
[2] The initial petition filed under docket no. UM 1953 was eventually withdrawn and refiled under UM 2202.
[3] UM 2202, Order No. 21-468.

No. 21-091. PGE utilized the same valuation methodology as previous GEAR resources and performed the cost and credit analysis with the available information at the time the resource was procured. PGE completed the analysis with the energy price curves from the AURORA forecast in PGE's 2021 request-for-proposal (RFP), a forecast of the resource's generation, the most recent cost of capacity data, and an Effective Load Carrying Capability (ELCC) analysis.

During review of PGE's filing, Staff observed that there are major differences between the Company's underlying inputs in the rate and credit calculation and the newest vintage of forward generation curves used in PGE's 2023 Integrated Resource Plan (IRP). The total PPA price for the QTS resource over a 20-year term is **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. per MWh, with cost of service (COS) customers paying **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in energy and capacity credits. This results in a PPA premium of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** per MWh for QTS. [4] In comparison, calculating the energy and capacity credit using the most recent energy curves from PGE's 2023 (IRP) results in a PPA premium of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. In reviewing this difference, Staff considered the following:

1) The 2023 IRP curve has not yet been acknowledged by the Commission in Docket No. LC 80.
2) The inputs from the 2021 All-Source RFP have been used recently in the last twelve months to support four separate resource decisions associated with the 2021 All-Source RFP in addition to the additional GEAR program compliance filings approved in Order Nos. 23-035 and 23-036.
3) The 2021 All-Source RFP energy curve more closely approximates the current forward Mid-C energy market curve than does the 2023 IRP curve. Furthermore, a third-party market forecast of Mid-C prices from S&P Global Platts values the resource higher than the 2021 RFP values and the 2023 IRP values.[6]

Staff also compared the filing's energy and capacity credit values to similar stand-alone renewable resource bids in the Company's 2021 RFP. The energy and capacity credit value in this filing, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** than the average bid of $60.94 in the RFP. PGE also noted

---

[4] Staff notes that the customer agreement is for 13 years, so QTS will pay the entire cost of the 20-year PPA premium over the shorter 13-year agreement term.
[5] PGE Response to OPUC IR 57, Highly Confidential Attachment A:'OPUC IR 57_QTS Credit Calculation_Highly Confidential.'
[6] PGE Response to OPUC IR No. 58.

that many of the projects on the 2021 RFP shortlist did not reach a final contract with PGE due to further price increases.[7] Staff believes that the resource is in the public interest, as it provides emission-free generation to all customers **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. However, since PGE did not contract with the majority of the projects and there are not final price points to compare, it is somewhat difficult to make a comparison in this context.

To further evaluate the resource's impacts on COS customers, PGE provided a MONET model run with and without the resource. The analysis shows a $23.6 million decrease in system-wide net power costs when including **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. In an alternate hypothetical scenario, the model shows a $2.7 million decrease in net power costs if the resource was procured outside of the VRET program at full price to COS customers.[8] While not a direct requirement for compliance in UM 1953, Staff is encouraged that the resource provides these system-wide benefits, and notes that it helps ensure the resource is in the interest of COS customers.

Staff notes that it is typically supportive of VRET resources that reduce overall power costs and enable COS customers to pay less than comparable RFP bids on the Company's shortlist. A benefit of a VRET program is that it enables procurements that would have been too expensive to contract with otherwise or that were unavailable to the utility on its own. However, it is paramount that the VRET customer buy down an appropriate amount of the PPA to ensure COS customers do not end up subsidizing large customers clean energy goals. It is especially important to maintain this standard in the CSO portion of the VRET program because participants are bringing the resource to PGE. Since the participant identifies the resource in the CSO, PGE begins procurement without the same consideration for the resource's system value and cost effectiveness compared to a PSO resource. Staff is not opposing the procurement discussed in this memo but notes these emerging considerations to ensure COS customers continue to be treated fairly. It will be important to re-evaluate crediting in voluntary programs to account for the unique dynamics in a post HB 2021 market. While the methodology should enable a voluntary product that is still attractive to participants, it must continue to provide protections and value for COS customers. At the current scale and rate of renewable procurement, VRET valuation may be more dependent on factors like resource flexibility or matched products to be effective.

---

[7] PGE's Response to OPUC IR 61.
[8] PGE's Response to OPUC IR 63.

Emerging HB 2021 Considerations
The Commission's ongoing consideration of HB 2021 implementation issues across multiple dockets raises some broader questions about the types of voluntary renewable procurement contemplated in this Schedule 55 agreement. Staff raised the same concerns in its recommendation for PacifiCorp's (PAC) recent procurement under its voluntary Schedule 272 program and reiterates them below.[9]

An open HB 2021 question directly impacting this Schedule 55 agreement is related to the treatment of RECs created at the same time as generation that is reported for HB 2021 compliance. At this time, the Commission is considering arguments related to REC treatment and its implications for other Oregon regulated REC programs in Docket No. UM 2273. If it is determined at some point in the future that a REC must be retired by the Company to report generation as non-emitting for HB 2021 compliance, and the REC cannot be retired on behalf of a specific customer, the QTS agreement would lock Oregon customers into a long-term PPA that will not be considered emissions free under HB 2021.

Staff believes that it is important to flag that, while there is a lot of uncertainty about the likelihood, PGE is taking on a level of risk by entering into a long-term VRET agreement at this time. Staff believes that the best outcome for Oregon customers and QTS is to enable this customer agreement to move forward with a shared expectation that, no matter the future policy landscape, PGE and QTS will ensure that the RECs associated with this resource will be retired in a manner that allows the Oregon share of the generation to be reported as non-emitting. In UM 2283, the Commission approved PAC's procurement without stipulation. However, the Commission expressed support for addressing this emission compliance issue before additional voluntary product agreements are executed. The Commission also acknowledged Staff's notion that these contracts are always evaluated for prudence in power cost proceedings and encouraged PAC to consider these factors going forward.

Another HB 2021 consideration for future procurements is how non-emitting resource opportunities are allocated between voluntary and non-voluntary actions. With a limited pool of non-emitting resources and the scale of non-emitting resource needs, it will be increasingly important to consider the role that voluntary actions should play. As noted previously, it will be crucial that the VRET participant's PPA premium is at a level that does not require COS customers to subsidize participant's clean energy goals. One safeguard would be to ensure a participant's premium is at a level that lowers the PPA cost below what the utility identifies in its non-voluntary procurements. Staff is interested

---

[9] Staff Report, Docket No. UM 2283, *In the Matter of PacifiCorp, dba Pacific Power Application for Waiver of Competitive Bidding Rules*, August 14, 2023.

in exploring the potential benefits of using voluntary demand to help carry the burden of HB 2021 compliance.

In addition, Staff encourages the Company and its VRET customers to work together to consider products that provide broad value and not just low costs. PGE and its VRET customers should prioritize voluntary actions with high system value and direct emissions reductions value, such as flexible capacity or products that reflect 24/7-matched principles.

Conclusion

Staff recommends that the Commission approve the rates and credit calculation provided in compliance with PGE's Schedule 55 tariff because the Company has correctly used the approved methodologies and has demonstrated that the resource provides value to all customers. While difficult to compare, Staff is encouraged that the energy and credit value is **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. Staff also appreciates that the resource decreases net power costs in multiple MONET model scenarios.

However, Staff believes that some additional considerations are necessary for future VRET procurements.

First, Staff recommends that the Company consider the most recent forward energy curves, market forecasts, and cost of capacity values available at the time of VRET compliance filings. Staff is concerned that using outdated inputs and practices could pose costs and risks to COS customers in light of changing market conditions and resource availability. If PGE uses outdated inputs in crediting calculations without an appropriate reason, it could cause prudency concerns and potential disallowance of cost recovery from COS customers in a power cost proceeding.

Second, Staff also believes that utilities and stakeholders should discuss the implications of new tranches of GEAR procurement and the effects of the 2040 clean emissions target on the design of voluntary renewable energy programs. In particular, Staff recommends that PGE consider Staff's recommendation on REC allocation for voluntary customer agreements to ensure that generation from VRET resources is considered non-emitting for Oregon customers under any circumstance.

Staff is open to investigating these issues further prior to approval of the rate and credit calculations for this Phase if the Commission prefers. However, Staff recommends approval because the Company has utilized the information available at the time of procurement to best update and evaluate the value that this PPA provides to COS customers.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric's updated rate and credit calculations related to 120 MW of its Phase 2, Customer Supply Option offering and find that it complies with Order No. 21-091 and the Company's Schedule 55.

CA4 – UM 1953