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June 14, 2019

Via: email
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Public Utility Commission of Oregon
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RE: UM 1953 – Green Tariff

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If you have any questions, please call me at (503) 464-7805. Please direct all formal correspondence, questions, or requests to the following email: pge.opuc.filings@pgn.com.

Sincerely,

Karla Wenzel

Karla Wenzel
Manager, Pricing and Tariffs

Enclosure

UM 1953 / PGE / 500
Sims – Tinker

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

UM 1953

Green Tariff

PORTLAND GENERAL ELECTRIC COMPANY

Testimony of

Brett Sims
Jay Tinker

June 14, 2019

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I. Introduction and Summary

Q. Please state your names and current positions.

A. My name is Brett Sims. I am the Director of Commercial, Strategy Integration and Planning for Portland General Electric Company (PGE or Company).

My name is Jay Tinker. I am the Director of Regulatory Policy and Affairs at PGE.

Our qualifications are listed in PGE / 200.

Q. What is the purpose of your testimony?

A. In this second phase of UM 1953, we seek to resolve remaining green tariff policy concerns and gain Commission approval to raise the participation cap by another 200 MW for PGE's customers. We are motivated to make the next tranche of the green tariff available quickly, both to enable customers to meet their renewable targets and to maintain affordability of service, by taking advantage of renewable projects qualifying for Production Tax Credits and Incentive Tax Credits, before those credits are phased out.

In this testimony, we provide more detail on the program PGE is pursuing and discuss policy-based issues not yet resolved or raised by other parties to this docket including:

- Reconsideration of the nine conditions guiding green tariff design, including interactions with Long Term Direct Access (LTDA), from Orders No. 15-405 and 16-251;
- Procurement of resources for the green tariff;
- Calculation of the credits for energy and capacity; and
- Consideration of long-term impacts including how the green tariff is addressed and incorporated within the Integrated Resource Planning (IRP) process.

Q. Do these outlined issues align with the Commission's direction in Order No. 19-075 for Phase II of this docket?

A. Yes.

Q. Has the Public Utility Commission of Oregon (OPUC or Commission) given indication as to what issues should be litigated in Phase II?

A. Yes. Order 19-075 specified the following issues for further litigation in this proceeding:

- Review of the nine conditions outlined in Order No. 16-251: "We will review and reconsider the nine conditions… We see a need to assess changes in Oregon's competitive electricity supply market and in the renewable energy development marketplace since 2016 as part of a reconsideration of the nine conditions."[1]
- Interactions with the IRP: "PGE should review and discus how the VRET program is addressed and incorporated within the IRP process."[2]
- Eligibility criteria for the Customer Supply Option: "…Walmart raises an argument that size may not be the only criteria in determining the ability to effectively negotiate a competitive PPA…"[3]

Q. Before launching into this Phase II, for context, please describe the previous Commission actions in this docket.

A. The docket was originally opened following the passage of legislation directing the Commission to investigate whether utility offerings of voluntary renewable energy options were in the public interest. The initial investigation concluded with the Commission

[1] Order No. 19-075, page 8
[2] Order No. 19-075, page 6
[3] Order No. 19-075, page 8

adopting nine conditions for a utility green tariff offering including three conditions addressing PGE ownership of a green tariff resource.

Following the conclusion of the Docket UM 1690, PGE met with customers and concluded there was not sufficient interest in a green energy option that met the nine conditions and thus notified the Commission. However, as customer interest increased, and the cost of renewables decreased, PGE requested from the Commission approval to offer a green tariff in Phase I of this docket in 2018. The Commission approved PGE's request, with conditions, anticipating a second phase to this docket.

Q. How is your testimony organized?

A. Our testimony is organized into the following:

1. PGE's Green Tariff Program Design
    a. Net Bill Savings
    b. CSO Eligibility Requirements
    c. Utility Ownership
    d. Risk Adjustment
2. Applicability of the Nine Conditions
    a. Connection to Direct Access
    b. Proposed Guidelines to Replace the Original Nine Conditions
3. Resource Procurement
    a. Competitive Bidding Rules
    b. Defining Incremental Resources
    c. Transmission Requirements
4. Interaction with Integrated Resource Planning

Q. What is PGE asking of the Commission?

A: PGE asks the Commission to

- Adopt a new set of guidelines to be used for determining whether a green tariff is in the public interest, replacing the nine conditions. PGE proposes a refined set of seven guidelines in Section III.
- Raise the participation cap on PGE's green tariff, the Green Energy Affinity Rider (GEAR) to a total of 500 MW[4],
- Acknowledge that the breadth of risk, beyond that discussed in our Phase I testimony, brought to PGE by a entering a PPA and by a green tariff program generally should be borne by GEAR subscribers via the risk adjustment fee[5],
- Discuss the applicability of the Competitive Bidding Rules to this program and the interactions with integrated resource planning processes, and
- Affirm that PGE's approach to addressing green tariff interactions within the IRP is reasonable.

Q. Why is PGE continuing to pursue a green tariff?

A: As emphasized in UM 1953 (UM 1690) PGE / 200, PGE is pursuing a green tariff to meet four key goals:

1. Promote the development of new renewable generation to accelerate the decarbonization of PGE's electricity supply, recognizing that some customers want to further the green portion of their energy supply beyond today's Renewable Portfolio

[4] This new cap of 500 MW would expand each of the PGE-provided and Customer Supply Options by 100 MW.
[5] We note that the Commission has, in its Order 19-075, opined that the PGE risk adjustment charge to participants, intended to protect shareholders against the possibility of under-subscription or from bearing costs if the terms of customer subscriptions fail to match that of the PPA, is reasonable. In this testimony, we discuss identified risks beyond the undersubscription and mismatch in subscription terms and PPA term.

Standard (RPS) requirements in Oregon's longer-range renewable resource and carbon reduction policies.

2. Respond to customer demand for a product that had not been available to cost-of-service customers of the regulated utility, a product that enables them to be the designated off-takers of a new renewable resource,
3. Encourage partnerships between PGE, customers, and third-party developers to work together to meet the renewable resource goals of communities and customers,
4. Insulate non-subscribers from the costs of the program, in compliance with House Bill (HB) 4126[6] (2014 Regular Legislative Session) and the Commission's nine conditions and compensate shareholders for added portfolio risk.

PGE requests the ability to offer additional tranches of the existing program. This will require resolving remaining concerns about the green tariff design and raising the cap on the program.

Q. Does this mean that PGE would be making future changes to the green tariff program without prior Commission approval?

A. No. PGE is not seeking the ability to make future changes to the program without Commission approval. Any future changes to the GEAR, including a further increase of the cap, would be submitted to the Commission for review and approval, consistent with ORS 757.205 and 757.210.

Q. With regard to the first tranche of the Green Tariff program, has PGE seen much customer interest?

[6] Oregon House Bill 4126, February 11, 2014, p 2; https://olis.leg.state.or.us/liz/2014R1/Downloads/MeasureDocument/HB4126 .

A. Yes. PGE opened the PGE-provided option to customers on May 31, 2019. Customers filled the subscription window for the 100 MW available in this option in under two minutes.

Q. From what PGE saw in the response to the offering, are there any lessons learned?

A. Yes. Significant interest in the program is prompting us to expedite the development of the second tranche of the program.

Q. Do GEAR resources contribute toward PGE's RPS obligations?

A. No. Renewable Energy Credits (RECs) are retired on behalf of the subscriber, which means they may not contribute to PGE's general RPS obligations. This design is intentional to accelerate additionality of renewable resources above and beyond what would have been built for RPS compliance. The design also complies with the legislative directive in HB 4126, Section 3(6) that qualifying electricity from the green tariff resource may not be used by the electric company to comply with the RPS requirements.[7]

Q. If the Oregon legislature were to increase the RPS beyond 50% to a target as high as 100%, and/or implement another carbon reduction statute such as cap and trade, how will PGE take that into consideration in offering the GEAR?

A. PGE views the GEAR, and green tariffs generally, as a path to accelerate Oregon to 100% carbon-free power. As PGE's system becomes increasingly decarbonized, PGE may discontinue offering new tranches of the program, even if it has not reached the allowed participation cap. In fact, PGE would expect in such a scenario, that customer demand would change, or wane and that PGE would be managing the green tariff program accordingly.

[7] Oregon House Bill 4126, February 11, 2014; https://olis.leg.state.or.us/liz/2014R1/Downloads/MeasureDocument/HB4126.

II. PGE's Green Tariff Program Design

Q. What are the components of PGE's current GEAR offering?

A. As approved by the Commission in Phase I of this proceeding, PGE's current green tariff offering is:

- An offering for customers to directly support and benefit from the development of a new renewable resource;
- A rider to cost-of-service rates available to nonresidential customers whose aggregate demand across all retail schedules exceeds 30 kW;
- A program[8] with two variants: a PGE-provided PPA ("PGE Supply Option") and, for customers with load over 10 MWa, a Customer Supply Option (also, CSO, or the "bring your own PPA" option),
- A fixed fee offering, with energy and capacity credits[9] to offset the subscriber premium[10], and including administration and risk adjustment fees, and
- Currently limited to 300 MW (PGE proposes raising this cap to 500 MW, 200 MW for the PGE Supply Option and 300 MW for the CSO).

<u>**Net Bill Savings**</u>

Q. What is meant by net bill savings, negative credits, and incremental credits?

A. All three terms get at the idea of a subscriber having the possibility to more than offset the GEAR's subscriber premium such that, by participating, the subscriber may receive a discount on the cost-of-service rate.

[8] While PGE is not precluded from offering a green tariff with a PGE-owned resource, the currently approved GEAR uses a PPA-based model.
[9] Energy and capacity credits are calculated to compensate subscribers for the value the green tariff resource is bringing to PGE's system.
[10] Individual applications for floating credits will be considered in the CSO option.

Q. What is meant by fixed and floating credits?

A. Fixed credits mean energy and capacity credits will be calculated at the time the resource is procured. Under a fixed credit structure, the credits are levelized and then fixed—annuitized—for the subscriber over the term of the subscription. This is the design that we have explicitly proposed for the GEAR.

Alternatively, floating credits mean energy and capacity credits are recalculated annually for just the forward year. In this way, the subscribers' net price would not be subject to a long-term forecast of energy prices but rather a short-term market price view. They would take on more price risk within the program, gaining opportunity to receive increased credits during years when the green tariff resource is providing more value to PGE's system and decreased or no credits during years when the resource is providing less or no incremental value.

Q. How are the credits calculated?

A. Order No. 19-075[11] directs PGE to use IRP methodology to calculate energy and capacity credits; this methodology would be the same for both fixed and floating credits.

Q. Does PGE's GEAR allow subscribers the opportunity for net bill savings?

A. PGE's program does not allow negative credits in conjunction with fixed rates. In other words, PGE maintains a cap on the calculated energy and capacity credits so that they do not more than offset the subscriber premium. The Commission supported this approach in Order No. 19-075.[12]

Q. Would PGE consider allowing net bill savings in the Customer Supply Option?

[11] Order 19-075, page 7. The Commission adopts Staff's preferred method for determining capacity value which is to use the capacity methodology for PGE's IRP. The method uses modeling to calculate the capacity contribution of a resource and provides a valuation based on assumptions using least cost planning.
[12] Order 19-075, page 5.

A. Yes. PGE has not made this an explicit proposal but would consider such arrangements on an individual basis with Commission approval. In Order No. 19-075, the Commission wrote that, within the Customer Supply Option, the Commission will "entertain individual applications for arrangements with a floating credit, which do not guarantee net savings to a participant, but may result in net participant savings."[13] PGE's GEAR also states, "Subscribers electing to pursue the Customer Supply Option may choose to develop—in collaboration with PGE—an application for a floating credit for the consideration of the OPUC."

PGE's rationale for considering an exception is that it is possible the economies of scale brought by the customer's load size, in conjunction with favorable terms and conditions of a contractual arrangement and the capacity and energy contribution made by the specific resource, could justify a lower than cost-of-service rate, should the calculated energy and capacity credits fully offset all resource-related costs.

Q. Why didn't PGE design its GEAR specifically to provide subscribers opportunity of net bill savings?

A. PGE did not design the GEAR to be a bill discount program. It was designed to be a program to drive additionality of renewable generation. We recognize that it is a premium product. Subscribers are receiving something of value (i.e., a preferred energy resource, and with it, bundled RECs) above and beyond that provided to other cost-of-service customers, it is reasonable that subscribers will pay something above the cost-of-service rate.

<u>CSO Eligibility Requirements</u>

[13] Order 19-075, page 6.

Q. What are the eligibility requirements for the Customer Supply Option (CSO)?

A. The Customer Supply Option will be available to customers with loads greater than 10 MWa. Load size is important for economies of scale in administering the program.

Q. In Phase I of this proceeding, Walmart contended that size may not be the only criteria for participation in the CSO and advocates opening the program to smaller load customers. How does PGE respond?

A. PGE disagrees and appreciates that the Commission did not direct opening the program to smaller load customers.

PGE recognizes that customers, like Walmart, may have experience that would make them well suited to find their own PPA directly.

Nevertheless, PGE wants to ensure this product remains affordable and without added risk for all cost-of-service customers. The CSO option could present a significant administrative effort on PGE as the company would review and negotiate every contract's terms and conditions to ensure suitability for PGE's system and customer protections. PGE aims to balance customer access to the CSO with the administrative burden and costs from a situation in which PGE reviews an inordinate number of potential resources brought by customers. The administrative costs to consider each of those contracts could make the program prohibitively expensive. The right balance, for now, is struck with limiting the CSO option to PGE's largest customers.

Utility Ownership

Q. Utility ownership of green tariff generation resources is allowed by the Commission through its nine conditions[14]. Is PGE seeking ownership of a green tariff resource?

A. We affirm that ownership is an option. Keeping options open for customers and flexibility to offer the best green tariff based on cost and risk is important. To fulfill the second tranche of the program, PGE has no plans to include a utility-owned option. Any utility-owned option will include the fundamental requirement of no cost-shifting and that the specific attributes of an ownership structure are appropriately considered.

Participation cap

Q. You mention that PGE proposes raising the participation cap on the GEAR from 300 MW to 500 MW. Why?

A. PGE would like to offer this green tariff to meet ongoing customer demand, and the 100 MW cap on the PGE Supply Option for the first tranche has already been fully subscribed. PGE proposes to raise the caps for each of the PGE Supply Option and Customer Supply Option by 100 MW.

The caps would not preclude PGE from using its discretion to determine the size or the timing of offered tranches under those caps. For each tranche, PGE would determine tranche-specific pricing based on the then available renewable resources, administration costs, risk adjustment fee, and the calculated energy and capacity credits. PGE would then file with Commission Staff for further review.

Q. Does customer interest exceed the capped amount?

[14] Order No 16-251, page 3

A. Yes. Customers have demonstrated how important it is to them to drive renewable development and their eagerness for access to PGE's green tariff by filling the entire 100 MW of the PGE Supply Option within two minutes of the enrollment window opening. The resulting portfolio decarbonization will be a major public benefit. Raising the cap on customer access to the green tariff is in the public interest.

Risk Adjustment

Q. In Phase I of this proceeding, the Commission accepted as reasonable PGE's proposal of a risk adjustment fee to compensate shareholders for the risk of undersubscription and, specifically, subscription mismatches between the subscriber and the PPA term. Does this encompass all the risks borne by shareholders for a PPA based green tariff program?

A. No. In the following, we offer a discussion of additional risks to provide the Commission and stakeholders a fuller view of the risks that shareholders bear and should be compensated for.

Q. Please describe these risks borne by PGE shareholders as a result of the PPA and the program generally.

A. We summarize primary risks introduced by the GEAR in four categories: under-subscription, subscriber load uncertainty, resource variability, and PPA-related.

Q. Please discuss undersubscription risk.

A. As discussed in our Phase 1 testimony, undersubscription risk is a category that includes term length misalignment, the risk most closely examined during the Phase I of this proceeding and the risk directly acknowledged by the Commission in Order No. 19-075. The Commission stated that "PGE's proposal includes a risk-adjustment charge to participants that is intended to protect shareholders against the possibility of under-subscription, or from bearing costs if the terms of customer subscriptions fail to match that of the PPA… We find that PGE's risk adjustment charge is reasonable. PGE's program design protects cost of service customers." [15]

Under-subscription risk reflects that, as PGE will be contracting with a generating resource to meet customer enrollments, PGE shareholders bear the risk that the resource output will not be fully subscribed, or that there will be tenure mismatches between subscriber contracts and the resource contract term.

Q. Please explain customer load variability risk.

A. A subscriber's portion of a GEAR resource is determined based on an elected portion of their load as of the time of enrollment, rather than a specific MWa. When a customer enrolls with 100% of their load, and their load drops by one MWa, they do not pay for the one MWa they do not consume, while PGE still makes a payment to the resource owner. PGE wears the risk of elected load variability and those uncollected subscription premiums.

Q. Please explain variable resource risk.

A. Variable resource risk is the risk of a renewable facility generating below or above the expected annual MWh in any given year. Renewable resources, particularly wind resources, have significant interannual energy production variability compared to the long-term average annual energy production.

Under the GEAR Phase I contract, PGE commits to provide subscribers bundled RECs from the new renewable facility based on forecasted resource generation. When the facility under-generates in a given year, PGE must provide replacement RECs to honor that commitment. Because the local REC market is illiquid, uncertain, and potentially correlated to the GEAR resource's production, replacement REC costs could be significant.

[15] Order No. 19-075, page 7

Shareholders bear the price risk of purchasing replacement RECs (the delta between the subscription premium and the REC price) in addition to the risk to procure or generate the incremental energy. When the facility over-generates the expected annual MWh in a given year, PGE bears the price risk of selling the extra energy and RECs into the market. This risk is exacerbated by market energy price correlation to regional variable resource production. When variable resources are producing, energy prices decrease and vice versa.

Q. Please explain PPA risk.

A. With a PPA, PGE is contracting with a third party to develop, construct and operate a resource. The risk of a renewable resource can be mitigated in contracting in a variety of ways. Without exception, any risk that is passed on to the developer or resource owner is reflected through an increased price and subject to the risk tolerance of the developer. Even robust contractual provisions mitigate, rather than eliminate, risk. Contractual provisions that can be negotiated include:

- Production guarantees, which are contractual provisions that require minimum levels of production with liquidated damages if those levels are not met;
- Credit requirements, which require financial health and collateral;
- Scheduling increments which, when shorter, introduce risk to PGE operations, as has been acknowledged by the Commission in Order No. 18-171[16]; and
- Delivery requirements, which address the quality and quantity of transmission as well as the responsibility for events such as curtailment or oversupply management.

To fully mitigate risk for non-subscribing customers and PGE shareholders, PGE would have to negotiate these provisions to standards above and beyond current minimum

[16] Order 18-171, page 3

requirements that would encumber project participation and drive up prices. Given that this is an elective product, if prices are driven too high, customers will not participate. Accepting some risk with appropriate compensation to mitigate the impacts allows for the optimal balance between risk mitigating contractual provisions and maintaining compelling price and value.

Contrast this with a PGE owned resource with shareholders being compensated for some risk with a Return on Equity set by the Commission. In a PPA, risk is still borne by PGE shareholders but without an explicit return. Without any opportunity to be properly compensated for exposure, PGE customers and shareholders could be adversely impacted, and the risk adjustment is intended to address this. These risks could impact both parties and manifest as:

- Increased cost of capital;
- Financial risks presented by the contracted facility such as seller default, poor maintenance and operations, outage events, etc.; and
- Operational risks associated with the variable nature of the underlying resource, curtailment or lost output, and market constructs/timing that impose additional costs of operations on PGE.

Q. The Commission recognizes the reasonableness of the risk adjustment fee to compensate shareholders for risk and insulate cost-of-service customers. How does the fee protect cost-of-service customers?

A. The risk adjustment fee insulates cost-of-service customers by providing PGE shareholders reasonable compensation for the risks introduced by the program. In Staff/100 Kaufman/11, Staff writes, referencing under-subscription risk although the statement applies more broadly to all PPA and program risk, "PGE proposes that shareholders will bear the risk of under-subscription by VRET customers to PPAs. This increase in risk may increase PGE's cost of capital because investors expect additional compensation for additional risk. It is possible that this increased cost of capital is transferred back to customers through PGE's return on rate base."

Managing risk via the risk adjustment fee in conjunction with mitigation through the terms and conditions of the PPA is essential for a successful green tariff program that prevents cost-shifting.

III. Applicability of the Nine Conditions

Q. What are the nine conditions from Orders No. 15-405 and 16-251?

A. The nine conditions established by the Commission to determine whether utility-proposed green tariff programs were in the public interest are:

1. Renewable portfolio standard (RPS) definitions that must apply to voluntary renewable energy products are for resource type, location, and bundled renewable energy certificates (RECs).
2. Voluntary renewable energy options should only include bundled REC products. Any RECs associated with serving participants must be retired by or on behalf of participants, unless the participants consent to RECs being retired by the utility or developer.
3. The year that a voluntary renewable energy program eligible resource became operational should be no earlier than 2015.
4. The voluntary renewable energy program size is limited to 300 aMW for PGE.
5. Voluntary renewable energy product design should be sufficiently differentiated from existing direct access programs.
6. Voluntary renewable energy product offering terms and conditions (including the timing and frequency of offerings), as well as transition costs, must mirror those for direct access. PGE may propose terms and conditions that differ from current direct access provisions but must propose changes to their direct access programs to match those changes.
7. The regulated utility may own a voluntary renewable energy resource, but may not include any voluntary renewable energy resource in its general rate base. It may

recover a return on and return of its investment in the voluntary renewable energy resource from the subscriber; however, the utility must share some of the return on with the other utility customers for ratepayer-funded assets used to assist the voluntary renewable offering.

8. All direct and indirect costs and risks are borne by the participating voluntary renewable energy customers, shareholders of the utility or third party developers and suppliers with provisions allowing independent review and verification by Commission Staff of all utility costs. Costs include but are not limited to ancillary services and stranded costs of the existing cost of service rate based system.
9. All voluntary renewable offerings must be made publicly available and subject to review by the Commission to ensure they are fair, just, and reasonable.

Q. Do these original conditions allow utility ownership of a green tariff resource?

A. Yes. In Order 15-405, Commissioners elected to disagree with Staff's recommendation that utilities should not be permitted to own a green tariff resource. As part of this decision, the OPUC also elected to revise Staff's suggested program conditions, replacing three of the nine conditions originally proposed by Staff with the current Conditions 6, 7, and 9. Order 16-251 states, "These additions allow for utility ownership yet add further protections to minimize impact on competitive retail markets and ensure no cost shifting."

These conditions, along with Conditions 4 and 5, linked the possibility of a green tariff program with Oregon's existing Direct Access program caps and rules.

Q. What was meant by the reference to Direct Access in Condition 6?

A. The context was the Long-Term Direct Access (LTDA) program. PGE offers one-year, three-year and five-year Direct Access programs. With the LTDA program, participating customers opt out of cost-of-service, into the program, during an annual enrollment window. LTDA enrollment is capped at 300 MWa, and customers pay transition adjustments for five years in addition to the cost of the ESS supplied energy. After the five year transition period, the customer no longer pays transition adjustments.

Q. How has the context for green tariff programs changed from when the conditions were created to now?

A. In UM 1690, which began five years ago, the Commission was acting at legislative direction to study whether offering green tariffs were in the public interest. Green tariffs were new policy instruments at the time; not many were being authorized by other state utility commissions or offered by electric companies. In discussing an amorphous green tariff, it was understandable to put limitations on the unknown. Stakeholders immediately analogized a green tariff to LTDA and that analogy took hold because one vision of a green tariff then was that it would be an alternative to cost-of-service supply. Now, PGE has created a program that is a rider to, rather than a replacement of, cost-of-service.

Since 2016, we have seen more national attention and increasing customer demand for green energy options, and the offering of such options in other states with other utilities. Often prompted by large customer coalitions, at least ten other states have executed agreements under green tariff programs[17]. PGE's first tranche of the GEAR will add Oregon to the list to make eleven states. With the benefit of more precedent in other regions, and the clarity gained by the establishment of PGE's GEAR and the Phase I of this proceeding, we can have much more confidence that green tariffs are in the public interest.

[17] World Resources Institute, U.S. Renewable Energy Map: A Guide for Corporate Buyers, https://www.wri.org/green-tariffs-map.

The Conditions' Connection to Direct Access

Q. What has the current commission said of the nine conditions?

A. In Order 19-075 dated March 5, 2019, the Commission advised it was time to revisit the applicability of the nine conditions. The Commission said,

> As part of Phase 2 of this proceeding, we will review and reconsider the nine conditions for VRET program development we identified in Order No. 16-251. We see a need to assess changes in Oregon's competitive electricity supply market and in the renewable energy development marketplace since 2016 as part of a reconsideration of the nine conditions. In approving PGE's program, we apply flexibility in applying the nine conditions, because we do not require exactly the same terms and conditions as the Direct Access program.
>
> This reflects our view that significant differences in the ways a utility offering and the direct access program affect cost-of-service customers may warrant different terms and conditions for the programs. A review of the nine conditions is appropriate in light of these differences and the clarity offered by a specific proposal from PGE.

Q. Does PGE agree with the Commission that different terms and conditions should apply to green tariffs (VRETs) and Direct Access? Why?

A. Yes. Different terms and conditions should apply because PGE's green tariff and Direct Access are distinctly different customer options. The GEAR is a cost-of-service rider. Direct Access is an opt out of cost-of-service supply option.

A customer subscribing for the green tariff is paying for additionality of renewables while continuing to be served by the utility for electricity supply (that includes PGE's energy and capacity generation resources) and continuing to pay cost-of-service rates that support utility public policy mandates, including RPS, thus furthering renewable energy development and decarbonization. All the while, the utility continues to provide the customer safe, reliable, and affordable service.

In contrast, a customer electing Direct Access opts out of the utility's energy supply portfolio and the related requirements and attributes which further public policies carried out through electric companies, including decarbonization, provider of last resort, and nondiscriminatory terms of service. If ESS's offering Direct Access provided a renewable energy option, there is no requirement that it be bundled energy and REC, new, or additional. The Direct Access customer does not contribute to energy supply infrastructure beyond the transition period, and although the utility does not provide power, the utility still provides access to the grid and remains the provider of last resort through resource adequacy requirements.

As PGE noted in the SB 978 investigation, the Oregon governor and legislature have set the bar high to steadily decarbonize the electricity resource mix, and the most efficient way to deliver on these objectives is to keep the regulated electricity system intact, optimizing the regulatory construct and proportion of customers served through that system. Customers that remain part of utility supply service directly support achievement of broader societal aims, advancing important state policy objectives to address the urgency of climate change and the carbon reduction goals of our state, counties, and municipalities. The utility is the center of a transformation to a decarbonized energy system that remains affordable, reliable and equitable for all energy consumers.

In a hypothetical scenario, if all cost-of-service customers were to subscribe for the green tariff (ignoring for the moment that it is capped and unavailable to residential customers and customers with aggregated demand less than 30 kW), the regulated electricity system remains intact. Meanwhile, if all cost-of-service customers elect Direct Access (ignoring for the moment that it is capped and unavailable to residential customers), the electricity system becomes fundamentally altered and is no longer integrated or reflective of shared goals and responsibility.

Due to these significant distinctions between the programs, different terms and conditions must apply to green tariff and Direct Access programs to advance and protect the public interest.

Q. Are there other distinctions between green tariff and Direct Access offerings?

A. Yes. As Commissioner Tawney said during the November 20, 2018 hearing, green tariff and Direct Access programs "meet different customers' risk profiles and strategies."[18] For example, PGE's green tariff has a narrow focus, offering subscribers the ability to drive additionality of renewable generation, with the cost, stability, and protections afforded by being a cost-of-service customer.

In comparison, electricity service suppliers (ESS) may offer Direct Access customers a broader assortment of energy and cost options that fit other customer strategies, including when driving additionality of renewable generation is not the top priority. Direct Access may also require a customer have appetite to take a more active role in managing their electric service, and that may not be appropriate for every customer.

Q. Do green tariffs serve the public interest?

A. Yes. Prior to the GEAR, PGE had no tariff that allowed customers to purchase bundled RECs driving the development of new renewable projects or "bring their own PPA", and customers asked for this. The GEAR was developed in response to those customer demands and to diversify PGE's product offerings. Green tariffs serve the public interest by giving customers more diversity of options alongside those provided by ESS's. This is in addition to the public interest served by the green tariff's role in accelerating Oregon's decarbonization of electric power supply.

[18] Transcript of the November 20, 2018 Hearing with the Commission, page 80

Q. When should stakeholders be concerned that a green tariff is disrupting the competitive marketplace?

A. If PGE were using its regulated monopoly status to undercut the competitive market, having its cost-of-service customers subsidize a green tariff offering, then that should raise concerns. Such cost shifting is prohibited under the law authorizing green tariffs, HB 4126[19]. As Commission Staff wrote in their report to the Commission dated November 20, 2015, in UM 1690, "Cost-shifting is the only way a VRET could be a 'better deal' than direct access."[20]

Q. How has PGE designed its green tariff to insulate cost-of-service customers from cost shifting?

A. PGE has designed its GEAR to insulate cost-of-service customers. We have been transparent, in both Phase I of this proceeding and Section I of this testimony, about not only the benefits but the costs and risks associated with offering the program. We have been deliberate in assigning all administrative and PPA costs as well as a risk adjustment fee to subscribers. The energy and capacity credits paid to subscribers from all cost-of-service customers are equivalent to the modeled value the resource brings to the system, and as a further protection, these credits are capped so that subscribers are not receiving net bill savings.

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[19] Oregon House Bill 4126, February 11, 2014, p 2; https://olis.leg.state.or.us/liz/2014R1/Downloads/MeasureDocument/HB4126 .
[20] Docket No. UM 1690, Staff Recommendation to the Commission, page 5, https://edocs.puc.state.or.us/efdocs/HAU/um1690hau151653.pdf

<u>Proposed New Guidelines to Replace Original Commission Conditions</u>

Q. You mention earlier in your testimony that PGE is proposing a set of guidelines to replace the nine conditions from the Commission's 2016 Order. What are the guidelines PGE is proposing the Commission adopt?

A. PGE proposes the Commission adopt the following revised seven guidelines for green tariffs

1. Renewable portfolio standard (RPS) definitions that apply to voluntary renewable energy products are for resource type, location, and bundled renewable energy certificates (RECs). *(This is unchanged from the Commission's first condition.)*
2. Voluntary renewable energy options only include bundled REC products. Any RECs associated with serving participants must be retired by or on behalf of participants. *(This is a slight modification to the Commission's second condition that eliminates the ability of a participant to consent to RECs being retired by the utility or developer.)*
3. The generation resources supporting the program must be new or expanded, incremental renewable resources; the year that a voluntary renewable energy program eligible resource became operational should be no earlier than one year prior to program enrollment. *(This is a slight modification to the Commission's third condition which declared a resource new if it was built no earlier than 2015. PGE's proposed modification is intended to ensure that resources are indeed "new.")*
4. The voluntary renewable energy program size is limited to 500 MW for PGE. *(This is a modification to align the guideline cap with the proposed program cap.)*
5. The regulated utility may own a voluntary renewable energy resource, and when it does, it must continue to ensure there is no cost shifting to non-participants. *(This is*

a modification to the Commission's seventh condition, continuing the statutory bright-line prohibition on cost-shifting while allowing the utility design flexibility in structuring such a program. This modification also eliminates the requirement that the utility must share some of its return with utility cost-of-service customers for rate-payer funded assets used to assist the VRET offering. In a cost-of-service product, the subscribing customer remains a cost-of-service customer, bearing their full contribution to all cost-of-service costs.)

6. All direct and indirect costs and risks are borne by the participating voluntary renewable energy customers, shareholders of the utility or third party developers and suppliers with provisions allowing independent review and verification by Commission Staff of all utility costs. *(This is a modification to the Commission's eighth condition that recognizes that ancillary costs and existing assets are funded through the subscribing customer's continued service on cost of service.)*

7. All voluntary renewable offerings must be made publicly available and subject to review by the Commission to ensure they are fair, just, reasonable, and offered to eligible customers on a nondiscriminatory basis. *(This is unchanged from the Commission's ninth condition.)*

Q. What conditions were in the 2016 Order that PGE is proposing no longer apply?

A. The following are the conditions that PGE is not recommending for the further development of green tariff tranches:

- Condition 5 requiring that green tariff product design be sufficiently differentiated from direct access programs.

- Condition 6 requiring that green tariff terms and conditions mirror those for direct access.

Q. Regarding condition 2, why is PGE asking the Commission to remove the language "unless the participants consent to RECs being retired by the utility or developer"?

A. PGE heard from stakeholders in Phase I of this proceeding that "gifting" RECs to the utility or developer was not a desired option. By keeping the RECs with the customer, the RECs cannot be used to meet the RPS or other utility targets, and as a result, the green tariff has more power in supporting development of renewable resources above and beyond what would be developed for other reasons.

Q. Regarding condition 3, why is PGE asking the Commission to revise the language describing eligible generation resources?

A. As discussed in the response to the prior question, a primary goal of the green tariff is for the program to compel new additions of renewable generation. The condition that an eligible resource must have become operational as of 2015 was intended to promote this goal. Our modification of the condition preserves this, driving additionality.

Q. Why is PGE asking the Commission to change the cap in Condition 4 from 300 MWa to 500 MW?

A. PGE is proposing to change the cap to be consistent with the proposed GEAR cap of 500 MW of nameplate capacity, as discussed earlier.

Q. Why is PGE asking the Commission to remove Conditions 5 and 6, which compare green tariffs to Direct Access?

A. PGE finds Condition 5 to be irrelevant and condition six to be both irrelevant and counter to the public interest.

Condition 5 requires a determination of whether the programs are "sufficiently differentiated." As discussed earlier, and acknowledged by the Commission, green tariffs meet different customers' risk profiles and strategies; the GEAR, in particular, is inherently different from Direct Access by being a cost-of-service rider. Once it has been ensured that a green tariff is not cost-shifting and therefore not adversely affecting the development of the competitive market, as called out in HB 4126, Section 3(3)(b)[21], this comparison offers no further value in determining whether the public interest is served by a green tariff. In fact, the competitive market may be inspired to offer products to compete with this PGE premium product and it could have a positive impact on the development of competitive product offerings for customers.

Condition six requires terms and conditions in green tariff "mirror" those in Direct Access or that Direct Access be changed to mirror a green tariff terms and conditions. The Commission stated directly in Order No. 19-075, "we do not require exactly the same terms and conditions as the Direct Access program," and therefore, the condition no longer should apply. Furthermore, if the condition were to continue to apply, it could be counter to the public interest. To direct that any benefits that a green tariff product brings a subscriber either be removed or also be attributed to Direct Access, does not provide a more competitive marketplace. It creates a more homogenous marketplace with less attractive options for customers, and this result is counter to the public interest.

[21] Oregon House Bill 4126, February 11, 2014, p 2;
https://olis.leg.state.or.us/liz/2014R1/Downloads/MeasureDocument/HB4126 .

Q. Regarding condition seven, why is PGE asking the Commission to remove the language that says, "the utility must share some of the return on with the other utility customers for ratepayer-funded assets used to assist the voluntary renewable offering"?

A. The GEAR is designed specifically so that subscribers bear the costs of the program within the subscriber fee. Participating customers remain on cost-of-service and are paying for the ratepayer assets used to assist the green tariff offering; there is no cost shift or transfer or use of assets to support the program that subscribing customers are not paying for or contributing to.

IV. Green Tariff Resource Procurement

<u>Competitive Bidding Rules</u>

Q. HB 4126, among its considerations, identified competitive procurement of the electricity offered in a green tariff. How will PGE ensure a competitive PPA procurement process for this second tranche of the green tariff?

A. PGE will use a competitive procurement process that solicits bids from a broad range of proven renewable resource project developers and operators. The process would assess projects based on terms including price, project development maturity, counterparty experience, and ability to meet required resource size and timing.

PGE requests a waiver for the Competitive Bidding Rules required for the IRP Request for Proposal (RFP) process.

Q. Why is PGE asking for an exception of OAR Chapter 860, Division 89 Competitive Bidding Rules?

A. PGE can meet the key elements of the rules without the entire process that would impose a longer procurement timeframe at greater costs to customers when the ability to move more swiftly is required to meet customer interest. The proposed procurement process provides the following benefits:

- Flexibility: PGE wants to be able to offer tranches of the GEAR program as customer demand requires and an RFP process does not allow for that level of flexibility.
- Participation: Employing this procurement approach for a Phase I resource has resulted in positive feedback from the developer community, and this ensures their continued involvement.

- Program competitiveness: The cost of conducting a full RFP would need to be completely borne by the program subscribers. The cost of incurring an independent evaluator and PGE time to structure an RFP is substantial and has the potential to financially burden the program enough to make it unattractive to potential subscribers.

PGE will use criteria to choose the project that best minimizes risk for customers and shareholders vetted while still maintaining reasonable program pricing.

Q. Without abiding by the Competitive Bidding Rules, how can stakeholders be confident knowing the resources were fairly evaluated?

A. PGE is invested in having a successful green tariff, and a check on PGE's selection of resource is the need to balance program costs and program risk. If the costs are too great, customers will not participate; the GEAR is a voluntary program. If the risks are too high for shareholders, PGE will not offer the product. These serve as checks on the procurement process. As is its practice, PGE will use prudence in seeking the low-cost, high-scoring resource in order to maintain a program with reasonable costs to which customers will subscribe and in order to properly manage risk for all customers and shareholders.

<u>**Incremental Resources**</u>

Q. HB 4126 identified promotion of the further development of significant renewable energy resources as a consideration for green tariffs. Is PGE requiring that green tariff resources be new or expanded facilities?

A. Yes. For the PGE Supply Option, PGE has made the requirement that the renewable generation resources be new, or expansions built for the GEAR so that subscribers may have a tangible impact on driving additionality of renewable resources. The GEAR program was informed by the Corporate Renewable Energy Buyers' Principles.[22] For the CSO, PGE is willing to evaluate any renewable resource that the subscriber brings forward.

Q. What are the Corporate Renewable Energy Buyers' Principles?

A. The Corporate Renewable Energy Buyers' Principles are a set of principles that 77 companies have signed on to representing over 69 million MWh of annual demand. For the PGE Supply Option, PGE views the principles articulated as appropriate to strive towards and represents what subscribers are seeking.

<u>Transmission Requirements</u>

Q. Does PGE make firm transmission a bidder requirement for PPA resources for its green tariff?

A. Yes. In the first tranche of PGE's green tariff, firm transmission is a requirement for PPAs in both green tariff supply options: the PGE Supply Option and Customer Supply Option. The bidder is required to provide a delivered product that uses firm transmission for delivery to PGE.

Q. Would PGE entertain the possibility of Green Tariff resources that use Network Integration Transmission Service?

A. Network Integration Transmission Service is a type of long-term firm transmission service, but it is only sufficient on its own for resources directly interconnected to PGE's network (i.e. "on-system resources"). Resources interconnected to a third-party network (e.g. BPA) would require point-to-point service to deliver to PGE.

[22] Corporate Renewable Energy Buyers' Principles, The Principles, https://buyersprinciples.org/principles/.

For on-system resources that bid into green tariff procurement efforts, PGE would work with the bidder to ensure that the resource could be designated as a network resource and receive Network Integration Transmission Service. If that process resulted in upgrades to PGE's network, PGE and the bidder would need to work within the applicable rules, requirements, tariffs, etc. to determine the costs and how they would be assessed.

Q. Does PGE understand the difficulty in obtaining long-term firm point-to-point transmission rights on the BPA system?

A. Yes, PGE understands and regularly experiences difficulties with new long-term firm point-to-point service across the BPA system.

PGE appreciates and is subject to the complexities and limitations of the Pacific Northwest transmission system. The continued development of renewable resources in the Northwest requires changes to the transmission system, in terms of both transmission development and utilization. The growth of renewable development also requires that PGE reassess how it considers transmission within resource planning and procurement processes. These changes will have cost and risk impacts to customers and utilities in the region, but they will be necessary for PGE to achieve its clean energy goals.

PGE seeks to promote a holistic solution that enables continued renewable development to benefit customers, while appropriately addressing potential risks to both customers and PGE. Importantly, any comprehensive solution will require working collaboratively with BPA and regional entities on solutions that address the concerns of both renewable developers and entities charged with maintaining reliability. Such a solution will require the flexibility to adapt to a changing landscape, both from a resource and transmission development perspective. Moreover, PGE recognizes that reaching such a solution will require significant effort and time on the part of PGE, the OPUC, stakeholders, and potentially other entities in the region.

Q. Would PGE consider making changes to this transmission requirement in future tranches of the green tariff?

A. Yes. To the extent that the long-term firm transmission requirement evolves in a future RFP docket, PGE will evolve its transmission requirements for the green tariff resource, ensuring that our procurement processes are as consistent as possible.

V. Interactions with Integrated Resource Planning

Q. How will green tariff resources be considered in the IRP Process?

A. Subscription products like the GEAR will be included in PGE's modeled generation portfolio once contracted, which is the case for all generation resources.

The 2019 IRP includes sensitivity analyses for the green tariff and Community Solar programs, the first significant resource acquisition-supporting participatory programs. Because there are not yet contracted resources associated with these programs, they are not yet considered in the base case generation portfolio. At full participation, the first tranche of the GEAR comprises 300 MW and Community Solar an additional 93 MW of installed nameplate capacity. With these programs included, the 2019 Draft IRP shows that PGE remains short over 600 MW of capacity and over 350 MWa of energy in 2025 in the Reference Case. The 2019 Draft IRP states that its modeling "suggests that there is a very low likelihood that these updates would materially impact PGE's near-term capacity and RPS needs. PGE also considered potential uncertainties related to voluntary program participation and our energy position in the design of the Action Plan."[23]

Q. How are GEAR resource acquisitions aligned with IRP planning?

A. On an ongoing basis, resource acquisitions supporting a participatory program like the GEAR will align with IRP planning by 1) crediting subscribers for undifferentiated energy using the IRP methodology only if and when PGE is energy-short, and 2) crediting subscribers for capacity using the IRP methodology only if and when PGE is capacity-short, and at a credit level that reflects the contributions of the resource. In other words, by anchoring the energy and capacity credit calculations with the IRP methodology, the GEAR

[23] 2019 Draft IRP, Chapter 4, Section 4.7, page 99

reflects system need in its pricing, only bearing cost (via the credits) to cost-of-service customers to the extent the GEAR resources satisfy a portfolio need and bring value to the system.

Q. What are the impacts of adding significant new GEAR resources outside of the IRP planning processes?

A. GEAR resources will cause PGE's portfolio to deviate from the plan identified and pursued through the IRP, similar to other activities that occur outside of IRPs, like PURPA contract execution and Community Solar subscription. GEAR resources will not impact PGE's RPS position because green tariff RECs are retired on behalf of subscribers and therefore do not contributed toward the RPS. However, GEAR resources will impact PGE's energy and capacity positions. Under most conditions, the alignment of the energy and capacity credits with the IRP analysis will hold portfolio costs neutral to GEAR subscriptions.

An exception to these rules would be if a GEAR resource caused PGE to be materially long on energy or capacity in a year in which the IRP forecasted the portfolio to be short. This could create a circumstance in which the Preferred Portfolio performance in the prior IRP could be materially affected by the GEAR resource.

PGE plans to utilize two approaches to reduce the likelihood of such a situation. First, similar to the analysis conducted within the Draft 2019 IRP, PGE plans to continue to evaluate sensitivities around future voluntary program participation within the IRP and to take these findings into account when designing future IRP Action Plans. This will help to ensure that IRP Action Plans do not conflict with GEAR subscriptions and that the portfolio cost impacts of GEAR resources remain neutral. Second, the energy and capacity credits are designed to discourage GEAR subscriptions when PGE has met energy and capacity needs, reducing the likelihood that GEAR subscriptions would cause PGE to be energy or capacity long in a given year. Ultimately, considering the possibility GEAR pricing signals do not deter demand—that some customers might continue to have interest in subscribing in the green tariff when no credits apply—the GEAR is designed so that cost-of-service customers are still only paying for value they are receiving.

Q. In sum, please review PGE's request to the Commission?

A. PGE requests the Commission: 1) replace the existing nine conditions with the seven guidelines PGE proposes; 2) set the cap for both options—the PGE Supply Option and Customer Supply Option to a total of 500 MW; 3) acknowledge a broader range of risks borne by PGE shareholders in PGE's offering its green tariff; 4) grant a waiver or exception from the Commission's competitive bidding rules for acquisition of the resource to meet the second tranche, noting that the underlying policy of competitiveness is met through PGE's alternative procurement approach; and 5) affirm that PGE's approach to addressing green tariff interactions within the IRP is reasonable.

Q. Does this conclude your testimony?

A. Yes.