BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2014

In the Matter of PACIFICORP, dba PACIFIC POWER, 2018 Renewable Portfolio Standard Compliance Report	STAFF'S COMMENTS

Introduction

Staff of the Public Utility Commission of Oregon (Staff) presents its Comments in response to PacifiCorp's, dba Pacific Power's (PAC) 2018 Renewable Portfolio Standard Compliance Report (Compliance Report). These comments address the Company's responsiveness to the reporting requirements found in Oregon Revised Statute (ORS) 469A.170 and Oregon Administrative Rule (OAR) 869-083-0350, and identify issues for consideration under other Renewable Portfolio Standard related rulemakings.

RPS Compliance Report Overview

The RPS is codified at ORS 469A.005 through 469A.210. ORS 469A.170(1) requires that each electric company subject to Oregon's RPS provide an annual report demonstrating its compliance (or failure to comply) with the RPS. The Commission, on review of the report, shall determine whether the company or supplier has complied with the applicable RPS. In reviewing the reports, the Commission must consider the manner in which the company has complied and review the information required under ORS 469A.170(2)(a)-(g) and any other factors deemed reasonable by the Commission.

OAR 860-083-0350(1)(a) requires electric companies subject to Oregon's Renewable Portfolio Standard (RPS) to provide an annual report demonstrating compliance (or failure to comply) with the RPS in the previous calendar year (compliance year). OAR 860-083-0350(2)(a-s) outline the Compliance Report requirements. In Order No.11-440, the Commission adopted a standardized Compliance Report form, which includes two narrative questions and a response to each element of OAR 860-083-0350(2)(a-s), OAR 860-083-0350(6), and OAR 860-083-0350(7).

The Compliance Report must provide a complete accounting of renewable energy certificates (RECs) used for compliance in the compliance year. The accounting must be separated into bundled or unbundled RECs and banked or newly acquired RECs. The report must include a clear description of the following:

- Generating units that produced the RECs used;

- The total cost of compliance associated with using the RECs for compliance;
- The Company's position in relation to the four percent cost cap set forth in ORS 469A.100(1)[1]; and
- A detailed explanation of any material deviations from the electric company's applicable acknowledged implementation plan filed under OAR 860-083-0400.

Per OAR 860-083-0340(4), once a company or supplier files a compliance report, Staff and interested persons may file written comments within 45 days of the filing. The company or supplier may respond within 30 days of any comments. After considering written comments, the Commission may decide to commence an investigation, begin a proceeding, or take other action as necessary to make a determination regarding compliance with the applicable renewable portfolio standard.

2018 Compliance Report Overview

Staff's review of PAC's 2018 Compliance Report indicates that the Company has complied with the requirements outlined in OAR 860-083-0350 and has not exceeded the four percent cost of compliance limit. Further, the Company's use of RECs with the shortest life aligns with the overarching strategy described in the applicable RPS Implementation Plan (RPIP).[2] However, Staff finds that the Company's use of unbundled RECs deviates from the applicable RPIP in a manner that should have been flagged and explained in the report. Staff's findings related to this deviation are discussed further in these comments.

Background – Renewable Portfolio Standard

As part of the Oregon Renewable Energy Act of 2007 (Oregon Senate Bill 838), the State of Oregon established incremental targets for utilities and electric service suppliers to procure qualifying renewable energy. With the passage of Oregon Senate Bill 1547 on March 8, 2016, the Legislature increased the RPS targets applicable to PAC as shown in Table 1.

Table 1: Large Utility RPS Goals By Year[3]

2011-14	2015-19	2020-24	2025-29	2030-34	2035-39	2040 and beyond
5%	15%	20%	27%	35%	45%	50%

[1] ORS 469A.100(1)provides that "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 utility's annual revenue requirement for the compliance year."

[2] PacifiCorp's 2017 - 2021 RPS Implementation Plan, at pages 3 and 4, Docket No. UM 1790, July 15, 2016.

[3] *See* ORS 469A.052. Electric companies that supply three percent or more of the state's total retail load are considered Large Electric Utilities under this statute.

Background – RPS Compliance Instruments

RPS compliance must be demonstrated through the retirement of RECs that are maintained through the Western Renewable Energy Generation Information System (WREGIS).[4] RECs may be either bundled with energy or exchanged separately from the energy (unbundled); however, only 20 percent of a utility's RPS compliance obligation may be satisfied using unbundled RECs in any given compliance year.[5]

RPS qualifying RECs that are generated or acquired by the electric company in a given year can be: used to meet the company's compliance obligation in that year, sold, transferred, or banked for use in a future compliance year. Prior to SB 1547, the statute did not specify an expiration date for banked RECs, but required electric companies to use them in a first-in, first-out (FIFO) manner. SB 1547 removed the FIFO requirement and established a five-year life for banked RECs with the following exceptions[6]:

- All RECs banked by the electric company prior to the passage of SB 1547 may be banked indefinitely.
- The first five years of RECs generated from Company-owned facilities that are constructed between March 8, 2018 and December 31, 2022 can be banked indefinitely.
- The first five years of RECs generated from facilities that are constructed between March 8, 2018 and December 31, 2022 and sell electricity to the electric company under a contract of 20 years or greater, can be banked indefinitely.

In lieu of procuring renewable resources, utilities are allowed to pay an alternative compliance payment (ACP) and the funds are placed in a holding account to be spent on energy conservation programs or for procuring additional eligible resources.[7]

Background – Additional RPS Compliance Mechanics

The following table summarizes additional key requirements for RPS compliance in a given year that are applicable to large electric utilities.

Table 2: Additional RPS Compliance Mechanics		
RPS Compliance Instrument	RPS Compliance Mechanics	Oregon Statute and Rules

[4] Per OAR 330-160-0015(17), one REC is issued per megawatt-hour of generation produced.
[5] Per ORS 469A.145(3), this cap does not apply to unbundled RECs from Qualifying Facilities.
[6] *See* ORS 469A.140.
[7] See OAR 860-083-0500.

Cost Limitation	Electric companies are not required to comply with the RPS in a given year if the incremental cost of compliance exceeds 4 percent of a utility's annual revenue requirement.	ORS 469A.100(1),(6) OAR 860-083-0300(2)(a) OAR 860-083-0400(5)(a)
Unbundled RECs	For large electric utilities, unbundled RECs, including banked unbundled RECs, may not be used to meet more than 20% of its RPS obligation in any year.[8]	ORS 469A.145(1)
Unbundled RECs from QFs	The 20 percent limit on the use of unbundled RECs in a given year does not apply to unbundled RECs from Qualifying Facilities (QFs) or net metering facilities.	ORS 469A.145(1)-(3)
Certified low-impact hydroelectric facilities	Only RECs from facilities constructed on or after January 1, 1995 can be used, with the exception of certified low-impact hydroelectric facilities (LIHI). The use of older LHI is limited to the following: • 50 average megawatts generated per year from older LIHI facilities owned by the company; and • Up to 40 average megawatts generated per year from older LIHI facilities not owned by the company.	ORS 469A.020 ORS 469A.025(5)

2018 RPS Compliance

PAC's 2018 RPS obligation and compliance activity are summarized in Table 3 below.

Table 3: 2018 RPS Compliance Summary		
Oregon retail sales	12,867,233 MWh[9]	
2018 RPS % Obligation	15%	
2018 RPS MWh Obligation	**1,930,085 MWh**	
RECs used for 2018 RPS	**Number of RECs**	**Percentage of RPS MWh**
Bundled – newly acquired	1,692,698[10]	87.7%

[8] Consumer owned utilities and ESSs have different limits on the use of unbundled RECs described in ORS 469A.147 and 469A.145(4), respectively.
[9] *See* PacifiCorp's 2018 Annual Report Supplement to FERC Form 1 and FERC Form 1, at page 2, Docket No. RE 68, May 29, 2019.
[10] Includes 4,113 two for one solar RECs eligible under OAR 860-084-0070(2).

Bundled – from bank	0	0%
Bundled subtotal	1,692,698	87.7%
Unbundled – newly acquired	166,013	8.6%
Unbundled – from bank	71,374	3.7%
Unbundled subtotal	237,387	12.3%
Total	1,930,085 RECs	100%

PAC's 2018 RPS Compliance Report demonstrates compliance with its 1,930,085 MWh RPS obligation through the use of 1,692,698 bundled RECs and 237,387 unbundled RECs. PAC primarily used RECs issued in 2018 (96 percent) along with a small number of banked RECs that were issued in 2015 (4 percent).[11] PAC's unbundled REC quantity falls under the 20 percent limit allowed by ORS 469A.145(1).The use of hydroelectric RECs falls within the 50 average megawatt limit on utility-owned low-impact hydroelectric electricity and the 40 average megawatt limit of third-party owned low-impact hydroelectric electricity established in ORS 469A.025(5).

Staff reviewed PacifiCorp's calculation of the total cost of compliance, which is summarized in Table 4. The total cost of compliance is $15,628,921 and represents 1.25 percent of PAC's revenue requirement.[12] This value is below the cap of four percent of revenue requirement established by statute.

Table 4: Total Cost of Compliance Summary		
Oregon Allocated Nominal Levelized Cost of Compliance ($000s)	2018 Revenue Requirement ($000s)	% Cost of Compliance of Annual Revenue Requirement
$15,629	1,248,443	1.25%

PacifiCorp's response to additional reporting requirements described in OAR 860-083-0350(2)(a-s) can be found in Attachment A of these comments.

Use of unbundled RECs

The Company's compliance report shows that it met 12.3 percent of its 2018 RPS obligation with unbundled RECs. Specifically, the Company acquired **[Begin Confidential]** [redacted] **[End Confidential]** unbundled RECs in 2018. The Company used 166,103 unbundled RECs acquired in 2018 for 2018 compliance, and banked 4,438 unbundled RECs for use in future years. The Company used an additional 71,374 banked unbundled RECs acquired in 2015. These 2018 compliance decisions follow the Company's decision to bank 106,293 unbundled RECs acquired in 2017. Staff is not aware of the Company's plan to use the 2017 unbundled banked RECs.

[11] *See* PacifiCorp's 2018 RPS Compliance Report, at page 2, Docket No. UM 2014, May 31, 2019, Attachment E.
[12] *See* PacifiCorp's 2018 RPS Compliance Report, at page 2, Docket No. UM 2014, May 31, 2019, p. 13.

[Begin Confidential]

[redacted]

[End Confidential]

In its 2017 – 2021 RPIP, the Company described its approach to the use of unbundled RECs as follows:

> While PacifiCorp's 2017-2021 Plan does not include the use of unbundled RECs in the 2017-2021 period, the Company is currently evaluating RFP proposals, including bids for unbundled RECs, that could qualify for Oregon RPS compliance. If the Company does choose to procure near-term unbundled or bundled RECs for Oregon RPS, consistent with the analysis presented in Confidential Appendix A, PacifiCorp will evaluate the tradeoffs between acquiring bankable RECs early as a means to mitigate potentially higher cost long-term compliance alternatives. This will balance risks and expected costs as required by the IRP guidelines in 1.b. and c. of Commission Order No. 07-047 and subsequent guidelines related to implementation plans set forth by the Commission.

The Company did not explain this material deviation in its Compliance Report, including how it evaluated tradeoffs, mitigated potentially higher costs, or balanced risks. Therefore, Staff's is limited in its ability to understand if acquiring additional unbundled RECs for compliance is and will continue to be a least-cost, least-risk decision. Staff finds the need for additional explanation particularly important in light of the Company's plans for near and medium-term acquisition of additional bundled REC resources—including both the EV 2020 projects under development and PAC's indication at the June 20-21, 2019 Integrated Resource Planning public input meeting that all cases continue to include several-hundred megawatts of near term wind and solar, along with most cases selecting thousands of megawatts of new wind and solar capacity through 2027.[13] Staff encourages PAC to consider why acquiring or not selling these unbundled RECs is necessary, while it continues to bank all infinite RECs and indicates an intention to acquire large amounts of additional renewable capacity (bundled RECs).

Staff requests that PAC clarify its decision to use, rather than bank or sell, the unbundled RECs acquired and used in 2018 in its reply comments. Because these compliance decisions align with the Company's overarching strategy to use short-term RECs first and its position under the cost cap, Staff suggests that further consideration

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[13] *See* PacifiCorp 2019 Integrated Resource Plan (IRP) Public Input Meeting slides, June 20-21, 2019, slide 12.

of forecasting unbundled REC use in the RPIP and communicating material differences in compliance reports occur within Docket No. AR 616 Renewable Portfolio Standard Planning Process and Reports and Docket No. AR 617 Renewable Energy Certificate (REC) Issues in Renewable Portfolio Standard, as necessary.

Classification of banked RECs

In its response to OAR 860-083-0350(2)(e), PAC states that, "the total number of banked bundled RECs used to meet the renewable portfolio standard for compliance year 2018 is 1,692,698." However in its response to OAR 860-083-0350(2)(b), the Company reports that the same 1,682,368 bundled certificates were generated or acquired in the same calendar year as the compliance year. Review of the Company's previous RPS compliance reports indicates that the Company consistently includes all bundled RECs generated and used in the same compliance year as banked RECs.

469A.005(2) defines a "Banked renewable energy certificate" as,

> a bundled or unbundled renewable energy certificate that is not used by an electric utility or electricity service supplier to comply with a renewable portfolio standard in a calendar year, and that is carried forward for the purpose of compliance with a renewable portfolio standard in a subsequent year.

Staff disagrees that these RECs can be considered banked and finds that the Company's interpretation obscures the Commission, Staff, and stakeholders' ability to evaluate the Company's approach to REC bank management. Staff plans to consider a more transparent definition of banked RECs in AR 616, and AR 617, if necessary.

Conclusion

Staff concludes that PAC has met the RPS compliance targets mandated by ORS 469A.052(1)(a) and has met the RPS compliance reporting requirements mandated by OAR 860-083-0350. However, Staff will review all comments that will be filed by interested persons and any responses that PAC may file. Further, Staff requests that PAC clarify its decision to use unbundled RECs for compliance in its reply comments. Staff will submit a report with its final recommendations for the Commission's consideration at a future public meeting.

This concludes Staff's Initial Comments.

Dated at Salem, Oregon, this 15th day of July, 2019.

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