June 3, 2020

Via Electronic Filing

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

RE: UE 370 Portland General Electric Company's 2020 Renewable Resource Automatic Adjustment Clause Tariff

Attached for filing in the above referenced matter please find the following:

- Surrebuttal Testimony of:
    - Craig Armstrong and Greg Batzler (PGE / 600)

Confidential Testimony will be emailed to the Filing Center as directed by Order 20-088 and letter to stakeholders dated March 26, 2020 from ALJ Nolan Moser.

Posted to Huddle for convenience of Parties are:

- All confidential Testimony and,
- All non-confidential Testimony.

Sincerely,

/s/ *Jaki Ferchland*
Jaki Ferchland
Manager, Revenue Requirement

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

UE 370

PORTLAND GENERAL ELECTRIC COMPANY

Surrebuttal Testimony of

Craig Armstrong
Greg Batzler

June 3, 2020

Table of Contents

I. Introduction

Q. Please state your names and positions with Portland General Electric (PGE).

A. My name is Craig Armstrong. I am a Project Manager for PGE.

My name is Greg Batzler. I am a Regulatory Consultant for PGE.

Our qualifications were previously provided in PGE Exhibit 100, filed in Docket No. UE 370.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to respond to the positions the Public Utility Commission of Oregon (OPUC or Commission) Staff (Staff), the Alliance of Western Energy Consumers (AWEC), and the Oregon Citizens' Utility Board (CUB) (collectively referred to as Parties) put forward regarding the three remaining issues in PGE's 2020 Renewable Automatic Adjustment Clause filing.

Q. Please provide a summary of the partial settlement reached thus far in this proceeding and the remaining issues, which you will be responding to.

A. On May 6, 2020, PGE, Staff, CUB, and AWEC reached an agreement settling the majority of issues in this docket, with the exception of the following:

a. AWEC's issues regarding project selection as discussed in AWEC Exhibit 100.

b. The inclusion of customer benefits in rates in this case.

c. PGE's Renewable Energy Certificate (REC) Monetization proposal.

Q. What is your recommendation regarding the remaining issues identified above?

A. We recommend the Commission reject AWEC's arguments and proposed adjustment related to prudency as PGE has demonstrated that the selection of Wheatridge was a prudent decision and consistent with both the Integrated Resource Plan (IRP) and Request for Proposal (RFP) leading up to this docket. Staff and CUB agree that PGE has demonstrated its selection of

Wheatridge was prudent. We also recommend the Commission reject the Parties' advocacy to include the additional customer benefits proposed because they: 1) introduce an unwarranted bias on PGE's ability to collect the prudently incurred costs of Wheatridge, 2) are beyond the structure and scope identified or recommended in the robust Commission process leading up to PGE's request for recovery of Wheatridge costs, and 3) should not be considered in isolation, as they would require a thorough review of PGE's overall risk profile in comparison with the risk incurred by similar utilities. Finally, we recommend the Commission approve PGE's proposal to monetize Wheatridge RECs, with or without modifications to the price and/or tenor recommended. Our REC monetization proposal provides cost of service customers additional benefits consistent with proposals made within the IRP, while also supplying high quality RECs to portfolio options customers at no additional cost.

Q. How is the remainder of your testimony organized?

A. After this introduction, we have two sections:

- Section II: Parties' Proposed Adjustments
- Section III: Summary and Conclusion

II. Parties' Proposed Adjustments

A. Prudency

Q. Do Staff and CUB recommend that the Commission find PGE's decision to select the Wheatridge project prudent?

A. Yes. Both Staff and CUB agree that PGE's decision to select and procure Wheatridge was prudent. Staff indicated that Wheatridge is consistent with the Commission's acknowledgement of PGE's 2016 IRP Update and that PGE used a robust process, in which the Commission acknowledged a final short list of bidders that resulted in Wheatridge. From this, Staff concluded in Staff Exhibit 100 (and reiterated in Staff Exhibit 400) that the investment in Wheatridge was prudent.[1] CUB did not make a final prudency determination in their first round of testimony. However, they did find that PGE was reasonable in determining to select Wheatridge[2] and in their rebuttal testimony, CUB agreed with Staff that the selection of Wheatridge was prudent.[3]

Q. What position does AWEC take on PGE's decision to select Wheatridge?

A. Contrary to Staff's and CUB's position and the facts presented in this case, AWEC continues to argue that PGE was imprudent in selecting Wheatridge. As a result, they continue to recommend a disallowance based on the cost of a withdrawn bid in PGE's RFP. In their rebuttal testimony, AWEC argues that PGE acted imprudently because PGE did not seek out revised project information from the shortlisted bidder who withdrew their bid from consideration [redacted]

---

[1] Staff Exhibit 100, pages 27-28.
[2] CUB Exhibit 100, pages 4-5.
[3] CUB Exhibit 200, page 3, lines 17-18.

Q. How does PGE respond to AWEC's position?

A. As we discussed at length in PGE Exhibit 300, AWEC's position is unreasonable, unsupported by the facts, based on faulty assumptions, and would result in the disallowance of prudently incurred costs. AWEC is comparing Wheatridge to a bid that could not be upheld and was withdrawn to form the basis for their prudency argument and adjustment. A bid that was withdrawn through no fault of PGE's. Allowing any bidder to materially change and substitute a bid at the end of a competitive solicitation is contrary to the purpose of an RFP and fundamentally undermines the integrity of PGE's selection process. As discussed in PGE Exhibit 300, to allow for substitute bidding at the conclusion of a solicitation process, would reward bidder behavior at odds with Commission approved RFP rules, undermine future solicitations, and would have put at risk PGE's ability to secure resources prior to tax credit deadlines.

Q. Did PGE argue that any bidder in the process acted improperly as AWEC suggests?

A. No. Rather than respond to the substantive arguments PGE put forth in over six pages of responsive testimony addressing AWEC's prudency arguments, AWEC chooses instead to misconstrue a minor point and miss the central argument. PGE did not suggest impropriety on the bidder's part. PGE maintains that allowing and rewarding such bidder behavior is contrary to customer interest. The issue of substituting bids at the end of an RFP process has greater implications than just this RFP. The cost and risk benefits of competitive solicitations cannot continue to serve customer interests if bidders are not required to submit accurate costs for which they are committed to deliver. Allowing for such behavior, regardless of the circumstances, fundamentally undermines both current and future solicitations. Instead of responding to this and many other issues PGE raised, AWEC simply continues to argue that special permissions should have been sought.

Q. AWEC argues that the selection process was not complete, therefore bidders should be allowed to submit new bids and that PGE has an obligation to score them. How does PGE respond?

A. AWEC's argument again misses the main point. At the time of the bidder's bid withdrawal, the RFP process was all but complete. PGE had adhered to and completed every step and milestone in the approved RFP process. PGE received the bid withdrawal notice and bid substitute request almost five months after the deadline to submit bids had passed. The value of competitive bidding is significantly eroded if at the conclusion of the process, a bidder can expect to demand an opportunity to re-bid and restart the process. In addition, this particular RFP was under critical timing constraints in order to ensure the capture of PTC benefits. Additional delays associated with replacement bidding would have threatened the capture of those tax benefits which was a primary driver of the timing of this competitive solicitation.

Q. Did PGE act unilaterally as AWEC states?

A. No. Again, AWEC is writing a false narrative of the events. PGE consulted with the RFP Independent Evaluator (IE), who is charged with the responsibility of ensuring the RFP design and process is fair and transparent. Only after the IE concurred with PGE's decision did we inform the bidder and move forward with final project selection.

Q. Did PGE's cost-containment screen, included in the RFP serve its intended purpose?

A. Yes. The cost containment screen served to limit short-listed resources to those forecast to be of high value, just as the Commission intended.

Q. Was the justification for PGE's Revised Renewable Action Plan that the project would provide "long-term economic benefits to customers independent of the RPS"[4] as AWEC argues?

A. No. The Revised Renewable Action Plan's justification was based on a least cost, least risk approach to meeting PGE's future RPS needs, while also serving to reduce PGE's near-term capacity and energy needs. It is very likely that customers will also receive economic benefits over the life of Wheatridge, but neither the Commission nor PGE implied that use of a cost containment screen guaranteed net benefits for a project at the time of the Commission's acknowledgment of PGE's Revised Renewable Action Plan.

Q. Is PGE basing the prudence of Wheatridge "on its ability to provide net benefits to customers over time,"[5] as AWEC states?

A. No. Wheatridge is prudent because it was the least cost, least risk resource resulting from a Commission approved RFP process that came out of a Commission acknowledged IRP. This is the record that PGE has established, and this is what the facts support.

Q. Is there any basis for AWEC's prudence disallowance?

A. No. AWEC is unconvincing in their argument regarding prudency as shown by their inability to address the majority of PGE's responsive testimony on the issue and given that both Staff and CUB also disagree with their conclusions. PGE was prudent in its selection of Wheatridge as the least cost, least risk resource for customers. The fact that the two other shortlisted bidders could not deliver on their submitted bids only serves to reinforce this point.

[4] AWEC Exhibit 200, page 4, lines 19-20.
[5] AWEC Exhibit 200, page 6, lines 2-3.

B. Customer Value/Protections

Q. Please discuss Staff's, CUB's, and AWEC's concerns regarding the value provided by and protections in place regarding PGE's Wheatridge investment.

A. Staff, CUB, and AWEC all raise concerns that Wheatridge may not provide the level of benefits PGE has forecast and all three propose differing methods for either capturing additional benefits or reducing customer risk. The proposed methods increase PGE's overall risk profile outside of a general rate case proceeding and also fall outside the scope of the conditions outlined in the Commission acknowledgement of PGE's Revised Renewable Action Plan in Commission Order No. 18-044, the RFP design approved via Commission Order No. 18-171, and the intent and design of the Renewable Automatic Adjustment Clause, as prescribed by Senate Bill 838 Section 13, and codified in ORS 469A.120.

Q. What method does Staff propose for shifting the risk related to recovering Wheatridge's prudently incurred costs?

A. Staff asks the Commission to direct PGE to use, as a floor for the owned portion of Wheatridge, the capacity factor identified by the Independent Energy Assessment Expert within the RFP process, used for establishing the lifecycle energy forecast for all shortlisted project bids, for the first 10 years of Wheatridge operations. According to Staff, this duration is commensurate with the term for anticipated PTC benefits and it ensures that customers receive the modeled benefits assumed in the RFP.

Q. Please describe CUB's method for shifting risk to PGE.

A. CUB notes that even though the Company may be eligible for cost recovery, it should bear some of the risk to ensure that the level of customer benefits from the project are met. To effectuate this, CUB proposes PGE forecast the non-power purchase agreement (PPA) portion of Wheatridge using a 50% blend of a five-year rolling average and the P50 forecast for the first ten years of operations.[6]

Q. Did either Staff or CUB put forth these proposals in their opening round of testimony?

A. No. Neither Staff nor CUB made any mention of their above proposals, leading one to assume they developed these proposals after filing their initial round of testimony.

Q. Why is that an important distinction to make here?

A. Typically, the regulatory process is designed to: 1) provide notice and allow parties enough time and opportunity to investigate and respond to issues, and 2) to narrow, rather than broaden, the scope of issues through subsequent rounds of testimony. Parties had approximately four months for discovery from PGE's initial filing until their opening testimony to develop the record and respond to PGE's initial request. However, neither Staff nor CUB brought forth these significant proposals, which, if enacted, will have broad implications to PGE's overall risk profile moving forward.

Q. Did Staff or CUB have anything in their initial round of testimony suggesting the inclusion of their above proposals?

A. Staff made a single vague recommendation in Staff Exhibit 100, which stated the following: "Consider ratepayer protections in PGE's Annual Update Tariff (AUT), which is the proceeding that addresses the Net Variable Power Costs (NVPC) impacts associated with Production Tax Credits (PTC), capacity factors, and other aspects of NVPC."[7] That was the entirety of their recommendation, with no further clarification or detail anywhere else in their opening round of testimony. PGE cannot be expected to write arguments in response to

[6] CUB Exhibit 200, page 3.
[7] Staff 100, page 5, lines 6-9.

testimony that is vague in nature and seemingly without any purpose other than to incorporate a placeholder into the record. CUB provides nothing in CUB Exhibit 100 to suggest their proposal put forward here.

Q. Is it appropriate to include new proposals in the final round of testimony?

A. No. The use of mere placeholder language does not provide PGE with a fair opportunity to respond until the final round of a proceeding, because as is evidenced in the above-referenced quote, there is no concrete or actionable proposal or argument to respond to, prior to the final round.

Q. Ignoring the fact that it is not appropriate for Staff or CUB, or any other party to put forward an entirely new proposal or adjustment in a final round of testimony, does PGE have a response to the merits of Staff's and CUB's proposal?

A. Yes. Staff's and CUB's proposal is inappropriate and misguided in many other ways.

- First, Staff's proposal ignores the fundamental customer benefit realized by successfully conducting and executing on the 2018 Renewables RFP in the first place. The additional customer benefit afforded by the Wheatridge project is the ability to capture the 100% PTC benefit before it goes away. This is the additional benefit that customers are receiving from Wheatridge and is part and parcel with the IRP acknowledgement and RFP approval.
- Second, both Staff and CUB propose to adjust the very item they agreed (along with AWEC) not to address until a general rate case.[8]

[8] "(T)he stipulating parties agreed that they would not propose any changes to PGE's wind forecasting methodology until its next rate case…" from Commission Order 19-329, page 2.

- Third, Staff, CUB, and AWEC are arguing for a change in regulatory policy that will affect PGE's overall risk profile, with no consideration for how PGE is compensated for incurring this greater regulatory and recovery risk. PGE's overall return on equity is what compensates PGE shareholders in relation to the relative risk PGE as a company faces. Staff, AWEC, and CUB are all very quick to bring up the dangers of single-issue ratemaking when it serves their interests and yet, that is what they are essentially proposing here.
- Finally, Staff, CUB, and AWEC all incorrectly argue that because Wheatridge is a different type of investment, customers require additional benefits or increased protections, yet only CUB is supportive of PGE's attempt to provide customers with additional benefits beyond the normal ratemaking paradigm through PGE's REC monetization proposal, which is consistent with the conditions included in Commission Order No. 18-171.

Q. Please elaborate on the settlement terms agreed to in PGE's 2020 Power Cost Update Tariff, UE 359.

A. In the 2020 Annual Update Tariff proceeding, PGE, Staff, CUB, and AWEC all stipulated that parties would not propose any changes to PGE's wind forecasting methodology until its next general rate case. The stipulation is quite clear and yet that is exactly what Staff and CUB have proposed here. Staff makes a misguided attempt to broaden the implications of this settlement language into stating that a preclusion of modeling changes could implicate the inclusion of any piece of Wheatridge into net variable power costs. Yet the stipulation does not state anything regarding modeling changes. It simply represents a stipulated agreement between parties, which both Staff and CUB are attempting to break. Staff also argues that their proposal does not represent "a modeling change for purposes of Schedule 125."[9] PGE disagrees with this statement. However, that is not the point. A plain reading of the Stipulation makes clear that no changes to PGE's wind forecasting methodology will be proposed by the Stipulating Parties until a general rate case. Staff's arguments that somehow this proposed change does not apply are misguided and calls into question the good faith relied upon between parties when crafting and agreeing to such stipulations.

Q. Please elaborate how this change broadly affects PGE's risk profile.

A. Irrespective of the UE 359 Stipulation, which makes clear the Parties' agreement on wind capacity factors, Staff, CUB, and AWEC are all attempting to propose a radical change in the current regulatory construct in isolation. If Staff, CUB, and AWEC would have PGE extend its capital to ensure specific rate making outcomes, then it is necessary to review PGE's return on equity (ROE) requirements considering this substantially increased risk that parties ask PGE to take on behalf of customers. It is inappropriate to recommend PGE adjust its overall project risk profile at the conclusion of a well-documented and prudently executed procurement process in isolation from the review of PGE's risk-weighted return requirements. Doing so reduces PGE's opportunity to earn a fair ROE, increases PGE's recovery risk, and could impact PGE's ability to access equity without a commensurate increase to allowed ROE.

Q. Are there any additional concerns with Staff's proposal?

A. Yes. Staff's proposal of setting a floor level ignores the fact that the RFP capacity factor forecast is meant to estimate the average output over the life of a project. As such, by setting a floor, Staff seeks to ensure all generation benefits greater than forecast are accrued to customers, while any differences occurring from lower than forecast generation are absorbed

[9] Staff Exhibit 400, page 20, lines 14-15.

by PGE. In other words, there is no symmetry in Staff's proposal. If, over the course of one-year, Wheatridge performs better, customers realize those benefits. However, should Wheatridge's average generation come in under the RFP life-cycle capacity factor in a different forecast year, what would normally result in offsetting conditions, results in a greater than actual benefit for customers and a greater than expected cost for PGE.

Q. Does PGE currently experience under-performance risk associated with renewable resources?

A. Yes. When PGE's wind assets under-produce relative to forecasts, PGE incurs the cost of higher priced replacement energy and the cost related to the under-production of federal Production Tax Credits (PTCs). To imply that PGE does not already share in this risk is incorrect.

Q. What capacity factor is PGE currently using to forecast Wheatridge's energy production?

A. PGE is currently using the capacity factor used within the RFP process, including the adjustments made by the Independent Energy Assessment Expert which is the same capacity factor both Staff and CUB reference. While PGE believes it is inappropriate to change the current five-year rolling-average methodology for all the reasons discussed above, in practice, actuals will not begin to be factored into the forecasted capacity factor for Wheatridge until the 2023 NVPC proceeding.

Q. Does setting a guaranteed capacity factor ensure that customers receive the modeled benefits assumed in the RFP, as Staff suggests?

A. No. For any economic analysis of a project, the primary driver of project benefits are wholesale market prices. As PGE discussed in PGE Exhibit 300, all projects were ranked using the same sets of forward market prices, which were updated for the final shortlist ranking. Should forward market prices go up or down from those used in an RFP, so too will the benefits of Wheatridge, as would the benefits for any other forecasted resource.

Q. Does Staff's proposal hold PGE owned resources to a different standard than third-party owned resources?

A. Yes. Requiring a capacity factor floor for only the PGE owned portion of the project holds PGE shareholders to a higher standard than third-party resource owners. This ratemaking treatment would introduce a bias in resource procurement and could impact the ability for customers to access the least cost, least risk resource.

Q. Does Staff recommend holding third-party resource owners to the same standard they are proposing for PGE owned projects?

A. No. This highlights the inconsistency in Staff's argument and proposal and the bias against utility owned resources without any acknowledgement of the benefits utility ownership provides. While the PPA portion of Wheatridge does have a fixed price, the production guarantees provided as part of the contract [redacted]

To fully insulate both customers and shareholders from any risks assumed via the PPA would require third party owned resource owners to commit to production guarantees that mirror the AUT methodology with its monthly production estimates and on- and off-peak designations. Requiring this level of production guarantees and the collateral to support these obligations would likely lead to very few, if any, bids from third-party owned resources or significant increases to contract prices.

Q. Do third-party owned resources have an opportunity to adjust their required return to account for the certainty of production from each specific resource?

A. Yes. Independent Power Producers (IPPs) are free to adjust their PPA price to account for any required return they feel is appropriate based on the risk characteristics of the contract and resource, while PGE can only request a change to its return requirements through a general rate case proceeding and has no ability to adjust return requirements on an individual project basis. This affords third-party resource owners an advantage when it comes to risk allocation and bidding strategy that would be exacerbated by Staff's proposal.

Q. What are the benefits of PGE owned resources for PGE customers?

A. Utility owned resources provide customers the opportunity to ensure significant residual value at the end of the resource's life, while third-party owned resources would require renegotiation and be subject to the then current market prices. The best renewable resources are developed first and represent the best locations to optimize production and reduce cost. Having the ability to provide these resources to customers on a long-term basis ensures continued access to quality renewable resources at a cost of service price. It is important that customers continue to have the ability to capture this benefit by not holding PGE owned resources to a different standard than third-party owned resources. Additionally, PGE owned resources benefit from PGE's strong understanding of customers' specific needs, our strong financial position, and the wealth of experience PGE has in crafting structures that are both least cost and least risk.

Q. Staff highlights Commission Order No. 18-138 from PacifiCorp's 2017 IRP proceeding as further justification for their proposal. Is this order relevant to this proceeding?

A. No. The order Staff references from PacifiCorp's proceeding is based on a completely different set of facts that has no bearing on PGE's request and is not in keeping with the direction given from the Commission to PGE. The facts and history leading up to the Commission order in PacifiCorp's IRP are materially different than those leading to Order No. 18-044, acknowledging PGE's Revised Renewable Action Plan, or Commission Order No. 18-171, approving PGE's RFP. PGE followed the Commission prescribed process of acknowledging a need through the IRP, then seeking and getting approval for the design and issuance of an RFP. PacifiCorp, instead, issued an RFP and ran an RFP process prior to any Commission acknowledgment of a need, basing their resource decision on the forecasted economic benefits of the projects. As such, the Commission made clear in PacifiCorp's IRP that the risk of proceeding remained with PacifiCorp. In fact, unlike PGE's process, because PacifiCorp chose to move forward solely based on economics, the Commission had this to say in their order:

> "Since the company must act soon to capture the full value of the expiring tax incentives, we have explicitly limited our acknowledgement in order to make clear that we intend to protect customers going forward, while still giving the company the flexibility to try to capture the significant economic benefits that the company's planning assumptions show PTC-enabled resources would deliver to customers."[10]

[10] Commission Order No. 18-138, page 9

Q. Did the Commission "limit" their acknowledgment for PGE's Revised Renewable Action Plan?

A. No. The Commission acknowledged PGE's plan and included five conditions, of which the four PGE was responsible for were met. The plain facts demonstrate that PGE's process leading up to the inclusion of Wheatridge into customer prices was based on a completely different process and set of circumstances than were PacifiCorp's. Additionally, the PacifiCorp IRP order Staff references was issued on April 28 2018, over three weeks prior to the Commission's approval of PGE's RFP in UM 1934.[11] If the Commission had wished to provide similar guidance on the expected rate treatment of procurements made by PGE they certainly could have included such guidance in their approval of PGE's RFP.

Q. Please describe AWEC's proposal for shifting greater risk onto PGE regarding the Wheatridge investment.

A. AWEC continues to recommend the establishment of a regulatory asset, in which all costs above those contained in the cost containment screen net revenue requirement would be placed. These costs would then either be approved for amortization or be disallowed based upon PGE's demonstration of benefits greater or lesser than originally forecast.

Q. Was Wheatridge a "nontraditional" resource procurement as AWEC has stated?[12]

A. No. As we have demonstrated above, Wheatridge was the result of an acknowledged IRP process and an approved RFP. Furthermore, PGE addressed all the conditions and recommendations from the Commission in both of those proceedings. PGE did not base the prudence of Wheatridge on its ability to provide economic benefits to customers over the long

[11] Commission Order 18-171 approving PGE's RFP was issued on May 21, 2018.
[12] AWEC Exhibit 200, page 2.

term, as AWEC states. The economics of Wheatridge, much like any RFP process, were but one consideration in the process. AWEC states that a mechanism to account for uncertainty is required and that they brought this up during PGE's RFP process. Yet, nowhere in any of the Commission Orders leading up to the selection of Wheatridge and request for recovery in this docket has the Commission raised this issue or recommended this course of action be taken. The fact is, AWEC has been in opposition to PGE procuring any resource from the beginning of this process and is simply carrying forward their opposition by trying to impose unreasonable and unwarranted conditions onto the approval of Wheatridge into customer prices. The purpose of this proceeding is to establish that PGE was prudent in its decision making and we have demonstrated just that.

Q. Does Wheatridge contribute to PGE's energy and capacity needs?

A. Yes. As AWEC concedes, Wheatridge does in fact meet some of PGE's energy and capacity needs. In fact, PGE's March 28, 2018 update to its energy and capacity needs, pursuant to Commission Order No. 18-044, determined a reference capacity need of 112 MW and a reference energy need of 4 MWa for 2021. However, if only 50% of qualifying facilities (QFs) executed at that point in time actually came online by 2021, PGE's capacity and energy need grew to 197 MW and 83 MWa respectively.[13]

Q. How many of the 77 QFs projected to come online in 2019 actually reached COD for 2019?

A. Of the 77 executed QF's scheduled for COD in 2019, only 10 actually achieved COD.

[13] See PGE's March 28, 2018 compliance filing pursuant to Commission Order No. 18-044.

Q. What is the point PGE is trying to make?

A. The point of this is that the RFP, which selected Wheatridge, is not different like parties are suggesting. PGE faced and still faces[14] both a capacity and energy deficit, which the results of the RFP partially filled in a least cost, least risk manner. While parties are trying to establish Wheatridge as a resource procurement that is markedly different from prior procurements as the basis for saddling PGE with greater risk, Wheatridge was built to satisfy a need for current capacity and energy needs, <u>and</u> future RPS compliance needs. The fact that the procurement was not needed for an immediate RPS need does not negate the fact that this procurement was in keeping with the least cost/least risk directives of the Commission.

Q. Are there other issues with AWEC's proposal of establishing a regulatory asset?

A. Possibly. The method AWEC proposes may not be consistent with Oregon Revised Statute (ORS) 469A.210 (2)(a), which reads:

> *The Public Utility Commission shall establish an automatic adjustment clause as defined in ORS 757.210 or another method that allows <u>timely recovery of costs prudently incurred by an electric company to construct or otherwise acquire facilities that generate electricity from renewable energy sources</u> (emphasis added), costs related to associated electricity transmission and costs related to associated energy storage.*

AWEC's proposal, if enacted, could potentially preclude PGE from recovering prudently incurred costs in a <u>timely</u> manner, which would be in direct violation of ORS 469A.120 (2)(a).

[14] PGE's 2019 IRP Reference Case capacity deficit was forecast at 685 MW for 2025.

Q. Did AWEC correctly calculate the first-year revenue requirement in their cost containment screen calculation?[15]

A. No. Ignoring the fact that PGE fundamentally disagrees with AWEC's proposal, they also made a material error in their proposed calculation. Confidential AWEC Exhibit 202 assumes that the solar/battery component of Wheatridge was forecast to come online at the same time as the wind assets, when, in fact, they are scheduled to come online the following year. Adjusting for this increases the first-year revenue requirement that AWEC calculated by over $2 million.

Q. Is the Wheatridge investment somehow different or in need of special treatment?

A. Absolutely not. Wheatridge was the result of a competitive bidding process, like any other, that was borne out of an acknowledged IRP. In neither the Revised Renewable Action Plan acknowledgement nor the approval of PGE's RFP did the Commission make any mention of special treatment being a condition of resource acquisition or indicate that this was somehow a unique case requiring special regulatory treatment.

C. REC Monetization

Q. Please summarize PGE's REC monetization proposal.

A. As we've described in both PGE Exhibit 100 and PGE Exhibit 300, PGE proposes selling Wheatridge RECs generated through December 31, 2024 to renewable portfolio options customers because it benefits both the residential and small commercial customers who participate in this program, and all PGE customers. The monetization of Wheatridge's RECs through 2024 reduces the near-term cost impacts of Wheatridge, consistent with PGE's

[15] As provided in Confidential AWEC Exhibit 202.

Revised Addendum to the 2016 IRP,[16] which included PGE's proposal to conduct an RFP for approximately 100 MWa of RPS-eligible resources and committed to return to customers the value associated with RECs procured prior to 2025. This proposal also addresses the very issues Staff, CUB, and AWEC raise regarding customer benefits. Providing the monetary value of these RECs directly to customers in the near-term, increases the value that Wheatridge delivers to customers. Additionally, renewable portfolio options customers receive high quality, local RECs at no additional program cost.

Q. Why did PGE include this proposal with the request to include Wheatridge into customer prices?

A. PGE included its proposal within the Wheatridge proceeding for several reasons. First, in 2016 IRP Addendum there was a majority opinion that monetizing RECs on behalf of cost of service customers was an important aspect of PGE's action plan that would reduce near term costs experienced by customers. Second, at the time of the 2016 IRP addendum, there was uncertainty about how to best capture value associated with these RECs and so PGE was left to identify the highest value purpose for these RECs. Finally, after PGE identified the most beneficial approach for monetization of these RECs, we recognized the need to seek Commission direction in this docket, so we can effectuate the proposal prior to procuring supply for the 2021 voluntary REC program, which is planned to occur this fall.

Q. Why is this timing important?

A. With the volume of RECs needed for supplying PGE's voluntary REC programs, it is important that a large majority of this need is secured prior to or near the start of the program year. While a portion of this need can remain unfilled into the start of the program year, the

[16] Filed with the Commission November 9, 2017.

larger the open position is, the more risk there is regarding market liquidity and market price. As such, PGE's voluntary program manager must fill the expected program need for 2021 and if there is no decision on how Wheatridge RECs are to be treated at that point in time, any 2020 generated RECs and the first six months of any 2021 RECs would need to utilized in some other way.[17]

Q. Is there support for PGE's proposal to monetize Wheatridge RECs for customers?

A. Yes. CUB continues to support PGE's proposal, subject to a slight modification in price to account for the volume of the proposed transaction.

Q. Do either AWEC or Staff support PGE's monetization proposal?

A. No. AWEC appears to argue that PGE should retain the Wheatridge RECs for future use. However, they also indicate, should PGE continue to pursue a physical compliance strategy, we should sell all of our RECs. Additionally, AWEC continues to argue that PGE should offset its rate base by the value of its REC bank. Staff bases their opposition primarily on the fact that the first five years of RECs generated from Wheatridge do not expire (i.e., they are "golden" RECs). Additionally, Staff continues to argue that Wheatridge RECs are not high quality and asks the Commission to consider the interests of voluntary subscribers, all customers, and whether this proposal was put forward in the proper venue. In their rebuttal testimony Staff also puts forward an alternative that if PGE does monetize surplus RPS RECs to return value to customers, we should, instead of using Wheatridge RECs, use five-year RECs (i.e., RECs with a five-year life) and reduce the price to reflect the lower value attributes

[17] According to: https://www.green-e.org/faq - Green-e Energy Certified sales that are made in a given calendar year must be generated within the 12 months of that calendar year, the six months before the calendar year began, or the three months after the calendar year has ended.

of these RECs to voluntary program customers. Finally, Staff, along with other parties, request that PGE be transparent in communications to voluntary program participants.

Q. Does it make sense for PGE to either retain every REC generated for future compliance or sell every REC in its bank?

A. No. As we discussed in PGE Exhibit 300 and below, PGE currently has a robust REC bank, which we consider as a hedge against future unknowns. While AWEC seems to frame this as an all or nothing issue, it is really about an appropriate balance between near-term value and long-term risk.

Q. Do "golden" RECs hold zero value for PGE?

A. No. Our current "golden" REC bank represents a hedge against long-term cost, risk, and uncertainty. However, we already hold a large volume of "golden" RECs in our existing bank and it is more likely that the value customers can receive from monetizing incremental "golden" RECs now, as PGE has proposed, will be greater than the potential future value recognized from banking them for later use. PGE agrees that holding onto some amount of "golden" RECs is an appropriate tool for mitigating or hedging against future compliance costs. However, as discussed in PGE Exhibit 300, our existing bank of approximately 9.6 million "golden" RECs[18] provides for an ample hedge against future uncertainties.

Q. Could PGE use "5-year" RECs in place of the Wheatridge RECs PGE has proposed using?

A. Staff is correct that PGE did indicate a willingness to consider using an equivalent volume of RECs in place of the "golden" RECs, should they be procured as part of the Revised Renewable Action Plan and we are still open to this option. However, it is important to

[18] This value does not include any RECs generated by low-impact hydro facilities.

highlight that while it is possible to swap out the Wheatridge RECs for an equal number of 5-year RECs, they do not hold an equivalent value for voluntary customers. As such, this reduction in value will lead to a reduction in benefits provided to cost of service customers. Additionally, as we highlighted in PGE Exhibit 300, planning assumptions have changed considerably since that time, making it less likely that increasing PGE's already robust REC bank will be beneficial to customers at a later date.

Q. Why are "5-year" RECs not equally valuable to Wheatridge RECs?

A. One attribute that distinguishes Wheatridge RECs from other resources in PGE's portfolio is the fact that it is a new, incremental resource. As we have discussed in prior rounds of testimony, our voluntary customers place value on incrementalism and RECs associated with Wheatridge can appropriately be considered to contribute toward additionality. Without these REC sales it is less likely that PGE would have been in position to bring a renewable resource into its portfolio, and as CUB notes, these RECs will not be double counted for RPS compliance purposes. While Staff continues to disagree with this premise, Staff cannot disagree that Wheatridge RECs are associated with an Oregon sited resource that is new. Additionality aside, the product attributes of being new and in Oregon, are of value and importance to PGE's customers and cannot be replicated through purchase of five-year RECs from existing renewable resource that were developed primarily for immediate RPS compliance.

Q. How does PGE respond to Staff's argument that Wheatridge RECs are not additional as they are not above and beyond what ratepayers already paid for.

A. Staff's argument relies on the circular logic that cost of service customers should be paying for these RECs because they are not "additional" and that they are not "additional" because cost of service customers will be paying for them. The fact is these RECs actually are above and beyond what PGE had planned for our cost of service customers to have access to within both the Revised Renewable Action leading to the procurement of Wheatridge and the planning assumptions used within the 2019 IRP.

Q. Are these RECs somehow less valuable because Wheatridge is being built to serve all customers?

A. This argument could be applied to any REC that PGE procures for its voluntary program subscribers. The fact is every resource that supports voluntary programs also supports the bulk electric system in one way or another. Even the most expensive RECs are far from valuable enough to solely justify a renewable investment decision.

Q. Is PGE attempting to "unload its resource planning risks"[19] onto voluntary customers as Staff argues?

A. No. As we have discussed throughout our testimony, Wheatridge was the least cost/least risk resource resulting from an acknowledged IRP and approved RFP. There is no shifting of any risk as a consequence of PGE's proposal. The voluntary program is indeed just that; it is voluntary. Customers choose to pay an additional amount on their bill to retire RECs above and beyond PGE's RPS requirements. Nothing in our proposal changes this fact and as we have stated numerous times, our proposal will not lead to an increase in the voluntary program price.

Q. Is the demand for RECs a driving force in IPP decisions to build resources?

A. No. Staff seems to be under the impression that IPPs are building resources in order to supply voluntary renewable programs. This is unlikely as the value of RECs is extremely low

[19] Staff Exhibit 500, page 13, line 21.

compared to the levelized cost of building a renewable resource. It is more reasonable and likely that IPPs base the economics of their projects primarily on long-term fixed contract pricing tied to energy forecasts through either a PPA construct or favorable Schedule 201 QF pricing.

Q. Do voluntary customers recognize any additional costs or risks from PGE's proposal?

A. No. As we stated in previous rounds of testimony, voluntary customers would see no increase in the program price due to PGE's proposal. In fact, these customers, like all PGE customers, would recognize a decrease in their overall price, all else equal.

Q. Did PGE reach out for stakeholder input regarding the request in this docket?

A. Yes. PGE did in fact have an informal discussion with OPUC Staff regarding this proposal prior to filing our request in this docket and we followed that up with an attempt to take this proposal to the February 2020 Portfolio Options Committee (POC) meeting. Unfortunately, prior to this meeting, in which PGE was scheduled to discuss our proposal, we were informed by Staff that they had concerns over discussing an active docket at the POC. Shortly thereafter, all POC meetings and activities were indefinitely paused, to allow for an investigation to be opened determining the scope of the Committee.[20] Additionally, PGE did conduct an informal stakeholder discussion with CUB prior to their opening round of testimony and attempted to hold an informal discussion with Staff.

Q. Does PGE's proposal require approval from the POC?

A. No. The POC, even when it was properly functioning, has no approval authority. The POC's authority, as defined within Division 38 of the Oregon Administrative Rules, Chapter 860, is to recommend to the Commission our portfolio options. Ultimately, any request that is

[20] See Commission Order 20-063.

brought to the POC, is either subject to an existing Commission order or must seek Commission approval. This is evidenced in the POC's annual recommendations that then go to a Commission public meeting. As there is no longer a functioning POC, PGE is seeking Commission guidance and approval, as we would have regardless.

Q. Is there flexibility in setting the price?

A. Yes. And that is why PGE has provided numerous sources of information to support the price proposed. At the same time, as we have indicated in our response to CUB, we are open to adjusting this price as well. Our main objectives in setting a price for these RECs is that voluntary customers pay a fair price for the qualities of the Wheatridge RECs without experiencing a change in the overall program cost, while all customers receive a value for the RECs that is in line with similar products on the market.

Q. Does PGE plan to provide "detailed and transparent information to its voluntary customers" as both Staff and CUB recommend?

A. Absolutely. PGE has every intention to be fully transparent with customers regarding the sourcing of RECs for the voluntary program.

Q. Could PGE simply sell these RECs on the wholesale market?

A. Yes. However, if sold on the wholesale market as Green-e eligible RECs, PGE would lose the underlying carbon attributes of the product. This would negatively impact the greenhouse gas emissions data submitted annually to Oregon Department of Environmental Quality for emissions associated with serving our customer load. If PGE were to sell these RECs as non-Green-E eligible, their monetary value would be substantially less.

Q. Do you agree with AWEC's arguments for offsetting PGE's rate base by the value of its REC bank.

A. No. As we discussed in PGE Exhibit 300, banked RECs do not hold much, if any real value in the market. Their value, after being banked is in their ability to be retired for future compliance obligations.

Q. AWEC attempts to draw a connection between their proposal and accumulated deferred income taxes (ADIT). Does PGE agree that the relationship is valid?

A. No. As we discussed in PGE Exhibit 300, ADIT is based on known book/tax timing differences that do result in known increases or decreases to PGE's after-tax income. PGE's REC bank does not represent a known increase or decrease to PGE's current or future after-tax income. The fact is, the market for selling banked RECs is extremely illiquid and, as discussed above, it is entirely possible that the future value of PGE's REC bank could be zero.

Q. Does PGE have an alternative proposal for establishing a price for these RECs?

A. Should the Commission seeks a more formulaic way to establish a price, PGE offers the following suggestion: price the Wheatridge RECs at a value equal to or less than the lower of 1) the wholesale price for an unbundled REC of comparable vintage and location; or 2) the average price last paid to a third party to supply RECs for PGE's voluntary program.

III. Summary and Conclusion

Q. In closing, please summarize PGE's position regarding the issues identified by parties.

A. We recommend the Commission reject AWEC's position regarding prudency as their arguments are baseless and ignore the clear facts presented in this proceeding. Wheatridge is a prudent investment, that was the least cost, least risk resource resulting from a Commission approved RFP process that came out of a Commission acknowledged IRP. We also recommend the Commission reject attempts from the parties to unfairly introduce a significant downward bias on PGE's statutorily allowed ability to timely recover <u>all</u> prudently incurred costs associated with Wheatridge, through the shifting of PGE's risk structure. The parties' proposals for increasing the benefits accrued to customers, while also increasing the risks and potentially the costs to PGE, is not in keeping with the well-established record leading up to this proceeding and inappropriate in isolation from the broader discussion of PGE's overall risk/reward structure. Finally, PGE recommends the Commission approve PGE's proposal for monetizing Wheatridge RECs through 2024, as this proposal, is consistent with the IRP acknowledgment, does provide customers with additional benefits (without additional risks) and further reduces the cost of Wheatridge, while also supplying PGE's voluntary customers with high quality RECs at no additional program cost.

Q. Does this conclude your testimony?

A. Yes.