

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 2, 2021

REGULAR  CONSENT  EFFECTIVE DATE November 3, 2021

DATE: October 25, 2021

TO: Public Utility Commission

FROM: Ryan Bain

THROUGH: Bryan Conway and Caroline Moore **SIGNED**

SUBJECT: PACIFIC POWER:  
(Docket No. UM 1729(5))  
Update to Standard Avoided Cost Schedule for Qualifying Facilities.

**STAFF RECOMMENDATION:**

Approve Pacific Power's (PAC or Company) updates to its Standard Rates for Avoided Cost Purchases from Eligible Qualifying Facilities.

**DISCUSSION:**

Issue

Whether the Commission should approve PAC's update to its Standard Avoided Cost Schedule.

Applicable Rule

OAR 860-029-0080(7)(a) specifies that on May 1 of each year, a public utility must file with the Commission updates to the avoided cost information filed under section (2) of this rule to be effective within 60 days of filing to reflect:

- (1) Updated natural gas prices;
- (2) On- and off-peak forward-looking electricity market prices;
- (3) Changes to the status of the Production Tax Credit [PTC]; and
- (4) Any other action of change in an acknowledged Integrated Resource Plan (IRP) update relevant to the calculation of avoided costs.

Order No. 21-120 approved PacifiCorp's requests for (1) a limited waiver of the May 1 due date specified in OAR 860-029-0080(7)(a) and (2) an extension of the due date until October 1, 2021, to accommodate PacifiCorp's transition to a Cluster Study interconnection process.<sup>1</sup>

## Analysis

### *Background*

The Company's current standard avoided cost schedule was approved in August 2020.<sup>2</sup> PAC's annual update to its standard avoided cost schedule for 2021 was moved from May 1, 2021 to October 1, 2021, by Commission Order No. 21-120. This was done to allow time for a qualifying facility cluster analysis study to conclude while providing stable prices to QFs.

Since August 2020, there have been no changes to the PTC or acknowledged IRP updates. Accordingly, the only inputs that may be updated are the inputs for natural gas prices and forward-looking electricity market prices.

### *Comparison*

The current filing incorporates annual updates to forecasted prices for natural gas and electricity. No other changes in PTC status or changes to the calculations of avoided costs are included.

Standard Fixed avoided cost prices are higher than Renewable Standard Fixed avoided cost prices and thus are expected to be preferred by any QFs signing new contracts. Levelized Standard Fixed avoided cost prices increased by 7 to 16 percent depending on resources type:

Table 1. Current and Proposed Levelized Avoided Costs (2022 - 2036)

| Standard (nonrenewable) \$/MWh |          |         |             |                |
|--------------------------------|----------|---------|-------------|----------------|
|                                | Baseload | Wind    | Fixed Solar | Tracking Solar |
| Current                        | \$42.92  | \$45.73 | \$38.75     | \$39.17        |
| Proposed                       | \$45.73  | \$51.70 | \$44.98     | \$45.38        |

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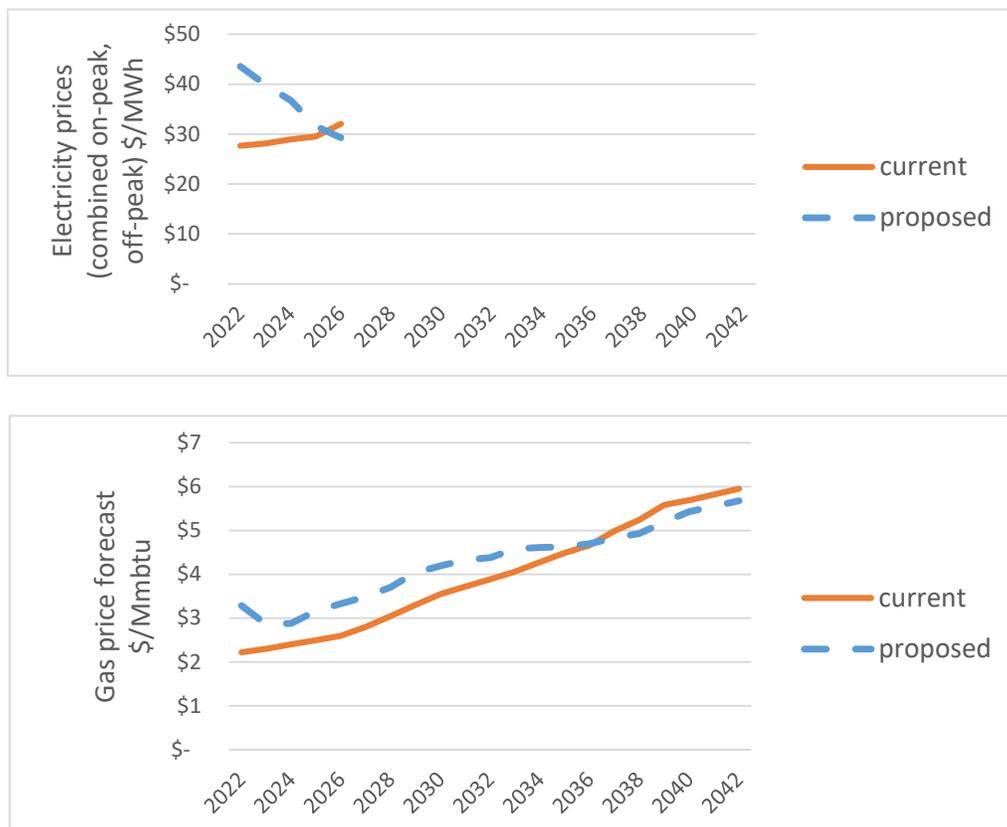
<sup>1</sup> In the Matter of PACIFICORP d/b/a PACIFIC POWER Petition for Limited Waiver of the Filing Deadline in OAR 860-029-0085(4), Order No. 21-120 (UM 1631).

<sup>2</sup> In the Matter of PACIFICORP, d/b/a PACIFIC POWER, Update to Standard Avoided Cost Schedule for Qualifying Facilities.

### Drivers of Change

Changes in the avoided cost schedule are driven by updates in the Company's gas and electricity price forecasts. Those forecasts are inputs into the avoided cost price computations and versus the inputs used for current prices, generally increased in initial years and decreased in later years (market prices are only displayed in the nonrenewable resource sufficiency period until 2026).

Figures 1 and 2. Electricity and Gas Price Forecasts Inputs



Staff initially had concerns about how prices were incorporated into the schedule for years where forecasted inputs are not relying upon future market prices. Staff concerns were allayed after discussing these issues with the Company on October 19, 2021, in a conference call.

Per the Company, gas prices are provided by a third-party consultant. Near term prices, a horizon of less than three years, are based on traded market values, and prices for horizons beyond three years out are based on the third-party's forecast. For electricity prices, forecast gas prices are incorporated into an Aurora model for the entire West.

Electricity prices are based on market values for the next three years, a blend of market and Aurora modeled prices in year 4, and beyond that electricity prices are based on the Aurora model and “tuned” by market prices. Staff is not readily able to completely vet the forecasts made by the Company in Aurora so these numbers remain somewhat opaque. Staff intends to explore these methodological considerations in post-IRP updates and/or avoided cost methodology updates, such as Docket No. UM 2000. The Company maintains this has been their existing methodology and Staff believes the approach remains reasonable for the annual avoided cost update. No stakeholders have expressed concerns to Staff about the Company’s proposed updated electricity and natural gas price forecasts.

#### Conclusion

Staff reviewed the Company’s methodology to update its electricity and natural gas price forecasts and is comfortable with the Company using these updated forecasts as inputs into its avoided cost prices. The Company did not make any other changes to its avoided costs prices.

#### **PROPOSED COMMISSION MOTION:**

Approve Pacific Power’s update to its Standard Avoided Cost Schedule.