BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 370

In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC	)
COMPANY,	)
	)
Renewable Resources Automatic	)
Adjustment Clause (Schedule 122)	)
(Wheatridge Renewable Energy Farm).	)
	)

REBUTTAL TESTIMONY

OF THE

OREGON CITIZENS' UTILITY BOARD

May 15, 2020

(Redacted Version)

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I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William Gehrke. I am an Economist employed by Oregon Citizens' Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400 Portland, Oregon 97205.

Q. Please describe your educational background and work experience.

A. My witness qualification statement is found in exhibit CUB/101.

Q. What is the purpose of your testimony?

A. In my testimony, I address the three remaining issues in the case. Under the Partial Stipulation that will be filled after May 15th, 2020, the remaining issues are:

- The inclusion of customer benefits associated with the wind portion of Wheatridge;
- Issues raised by the Alliance of Western Energy Consumers (AWEC) regarding project selection; and

- Portland General Electric Company's (PGE) renewable energy credit (REC) monetization proposal.

My testimony will first respond to AWEC's proposal to create a regulatory asset that includes any Wheatridge costs that exceed the benefits from the cost containment screens.[1] I will then address PGE's REC monetization proposal.

II. WHEATRIDGE WIND PRUDENCE AND CUSTOMER BENEFITS

Q. What did AWEC propose regarding the prudence of the Wheatridge energy facility?

A. AWEC believes that PGE did not act in customers' interest when conducting the 2018 RFP and that PGE was imprudent in selecting the Wheatridge bid.[2] As a disallowance, AWEC proposes that the Company cap the revenue requirement for Wheatridge at 50% of the difference of the MWh cost of the [redacted] and the Wheatridge project.[3]

Q. What is CUB position on PGE's decision to select Wheatridge?

A. In opening testimony, CUB found PGE's decision to select Wheatridge to be reasonable, but reserved the right to continue to review information in this proceeding.[4] After further review, CUB finds PGE's selection of the Wheatridge project from the shortlist to be prudent. Therefore, CUB does not agree with AWEC's recommendation to disallow 50% of the difference of the MWh cost of the Avangrid project to be reasonable. CUB does not believe PGE should be penalized from a cost recovery standpoint [redacted]

[1] UE 370 – AWEC/100/Mullins/21, lines 6-8.
[2] UE 370 – AWEC/100/Mullins/2, lines 6-10.
[3] UE 370 – AWEC/100/Mullins/19, lines 4-5.
[4] UE 370 – CUB/100/Gehrke/4-5.

[redacted]. CUB finds the wind portion of Wheatridge to be prudent, and will review the Wheatridge solar and storage PPAs when the Company seeks cost recovery in a later proceeding. Since CUB finds the selection of Wheatridge to be prudent, we believe PGE should be able to receive cost recovery for costs associated with the project that were prudently incurred. However, CUB believes that even though the Company may be eligible for cost recovery, it should bear some of the risk that the level of customer benefits from the project are met. CUB will expand upon this issue later in this testimony.

Q. What did AWEC propose with regards to the benefits and costs of the Wheatridge facility?

A. AWEC proposed to establish a regulatory asset for the Wheatridge facility. This approach would create a regulatory asset for any Wheatridge costs that exceed the benefits from the cost containment screen.[5] Once net benefits are received from Wheatridge, the regulatory asset would credit the benefits to the rate base of the regulatory asset. AWEC recommended to the Commission that PGE be held to its promise of economic net benefits from the purchase of Wheatridge.[6] For the Commission's part, it required that PGE include the cost containment screen in the RFP to assure the Commission that "procurement following from the RFP will be limited to high value resources."[7]

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[5] UE 370 – AWEC/100/Mullins/21/Lines 7-8.
[6] UE 370 – AWEC/100/Mullins/25/Lines 18-19.
[7] *In re Portland General Electric Company's 2016 Integrated Resource Plan*, OPUC Docket No. LC 66, Order No. 18-044 at 6 (Feb. 2, 2018)

Q. What is CUB response to AWEC's proposal?

A. AWEC's proposal to create a regulatory asset for the costs and benefits of a utility owned generation asset is not standard ratemaking procedure. However, CUB is intrigued by the proposal as a means to capture customer benefits and would be interested in hearing the Commission's guidance on AWEC's proposal. CUB is supportive of AWEC's objective of ensuring that customers benefit from this project. CUB has an alternative proposal.

Q. How are the costs of a new generation resource recovered from customers in Oregon?

A. The fixed costs of an electricity plant are recovered through a general rate case or a single-issue rate case such as the Renewable Adjustment Clause (RAC). There are two major fixed costs associated with an electricity generation plant: the capital cost of the generation plant and the Operations and Maintenance (O&M) expense. In this docket, PGE is purchasing wind turbines to produce 100MW from NextEra under a Build-Transfer Agreement (BTA).[8] The remaining 200MW is being procured through a power purchase agreement (PPA) with NextEra. While the capital costs associated with the BTA at issue in this proceeding enable PGE to earn a rate of return on its investment over the investment's useful life, the costs associated with the PPA portion do not provide PGE with a rate of return.

Q. How is production of a wind generation facility forecasted?

A. [redacted]

[8] UE 370 – PGE/307/Armstrong – Batzler.

[redacted]

Q. What is the P50 energy forecast?

A. [redacted]

Q. What are the variable power costs associated with Wheatridge wind and how are these expenses recovered from ratepayers?

A. Variable power costs are the costs that fluctuate with changes in the generation of the facility. Examples of variable power costs for the Wheatridge's wind project are [redacted]. Wheatridge's benefits are also variable. For example, customers will realize a benefit from the generation of federal production tax credits (PTCs), but these benefits are tied to the production of the wind facility and therefore vary. Wheatridge's wind turbines provide power to PGE's customers, which are variable based on generation. In the first ten years of the Wheatridge wind's operation, the wind projects will provide generate federal PTCs. Since the cost of the utilities taxes are embedded in rates, PTCs flow back to ratepayers as a credit.

Q. What are net variable power costs?

A. Net variable power costs are the sum of variable power costs and variable power benefits. PGE's net variable power costs are recovered through Schedule 125 – Annual Power Cost Update. For Portland General Electric, Schedule 125 is forecasted each year in the AUT process.

Q. How are variances between actual power expense and forecasted power expense handled in Oregon?

A. Variances of net variable power costs are handled through Schedule 126 – Portland General's Annual Power Cost Variance Mechanism (PCAM). The PCAM is subject to an asymmetric deadband, an earnings test, and a 90% sharing ratio. See CUB exhibit 201 which is a PGE slide to investors about the recovery of power costs.

Q. What risk do customers face under the current regulatory framework regarding the variable benefits that a generating facility may produce?

A. PGE's ratepayers bear a significant portion of the quantity risk associated with wind projects. Quantity risk is the risk that actual wind generation capacity factors are lower than the assumed capacity factor used when planning the facility. For wind projects, quantity risk can be the result of curtailment due to avian impacts, blade degradation, wake losses, and unplanned outages. Quantity risk is also present due to the variability of wind over time.

Q. Has PGE attempted to reduce quantity risk in its procurement of Wheatridge?

A. Yes. The Company signed a 30-year fixed fee agreement that covers the day-to-day onsite operations and operational capital replacements at the PGE-owned 100 MW facility.[9] The agreement does not cover failures due to [redacted][10] PGE's BTA includes a wake impact agreement with NextEra.

[9] UE 370 – PGE/100/Armstrong – Batzler /14, lines 2-5.
[10] UE 370 – PGE/100/Armstrong – Batzler /14, lines 4-5.

Q. Under Oregon ratemaking scheme, who bears the risk of wind quantity risk?

A. The Company does bear some quantity risk in the initial years of Wheatridge operations. If actual annual generation from Wheatridge is less than the P50 forecast, the Company bears the difference in the cost of the Wheatridge facility in the PCAM. [redacted], which would reduce the amount of PTC credits passed back to customers and zero fuel cost energy modeled in power cost rates. All things equal, when wind generation is lower than expected, PGE has to replace the energy with higher cost energy sources to meet load.

Q. Does CUB believe that Wheatridge will underperform its expected generation?

A. No. The initial generation forecast has been verified by a third party, Viasala, who ruled that the P50 forecast was reasonable based on utility standards.[11] However, based on PGE's experience with Biglow, CUB is concerned about customers bearing the quantity risk on Wheatridge. Below is table the forecasted Biglow's annual capacity factor in PGE's AUT.

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[11] CUB Exhibit 202.

	[redacted]
2021 AUT	[redacted]
2020 AUT	[redacted]
2019 AUT	[redacted]
Original Capacity Factor	[redacted][12]

Q. What is CUB's proposal?

A. CUB proposes that the Company forecast the non-PPA portion of Wheatridge using a 50% blend of a five-year rolling average and the P50 forecast for ten years past the commercial operation date of Wheatridge.

Q. Why do you think this is reasonable?

A. Under the current framework, CUB believes that PGE does not bear enough risk around the production of the wind portion of the Wheatridge facility. If allowed cost recovery for Wheatridge, PGE will earn millions of dallors of profit over the life of the project from the owned portion of Wheatridge. Customers, on the other hand, bear the risk that the benefits articulated in the Company's cost containment screen may not materialize. [redacted]. CUB's proposal seeks to more evenly share the production risk of Wheatridge between the Company and its customers.

[12] UE 335 – Staff/ 300/Kaufman/17, line 8.

III. WHEATRIDGE REC MONETIZATION

Q. Please summarize PGE's proposal concerning the monetization of RECs from Wheatridge.

A. In its initial filling, PGE proposed sell the RECs generated between the project's commercial operation date and December 31, 2024 to the Company's renewable portfolio option customers. PGE proposed pricing the Wheatridge REC's at [redacted].[13] PGE restated and reaffirmed its position in its reply testimony.[14]

Q. What was Oregon Public Utility Commission Staff's (Staff) response to PGE's proposal?

A. Staff opposed the Company's proposal to sell the Wheatridge RECs to the Company's renewable portfolio option customers.[15] As an alternative, Staff proposed that the PGE retain the near-term RECs in a REC bank to defer the Company's need to acquire additional RPS resources.

Q. Did AWEC make similar arguments to Staff?

A. Yes. AWEC recommended that the Company bank the Wheatridge RECs for future use.[16]

Q. Please summarize the Company's position on additionality.

A. PGE believes the sale of Wheatridge RECs to its renewable portfolio option customers provides those customers renewable energy benefits beyond those that the Company is mandated to procure under the RPS. The Company believes that the Wheatridge REC's are of superior quality to RECs that would otherwise be

[13] UE 370 – PGE/100/Armstrong – Batzler/21.
[14] UE 370 – PGE/300/Armstrong – Batzler/24.
[15] UE 370 – Staff/200/Moore/ 7, lines 8-10.
[16] UE 370 – AWEC/100/Mullins/26, lines 9.

purchased.[17] The Company also argues that Wheatridge is a resource that will be generating RECs currently not available, which creates additionality.[18] The Company also argues that the Wheatridge RECs are of similar quality to RECs from non-utility resources. Further, the Company believes sale of RECs provide additionality because the ability to generate revenues through REC sales is an important consideration for a project developer's decision to bring a new resource online.[19]

Q. Please summarize the Staff's position on additionality.

A. Staff argues that the Wheatridge RECs fail to provide the level of additionality with which the Company describes the renewable portfolio option products to customers.[20] Staff provides evidence that PGE's REC monetization proposal is not consistent with the Company's messaging around the portfolio options committee.[21]

Q. What is CUB response to Staff's and the Company's arguments on additionality?

A. It is CUB's understanding that PGE's REC monetization proposal would sell RECs from the commercial operation date of Wheatridge to 2024. These RECs will be sold to portfolio option customers and will not be used by the Company for compliance with the Oregon RPS. If the Wheatridge REC monetization program is approved, CUB believes that a change to Company's marketing practices may be

[17] UE 370 – PGE/100/Armstrong –Batzler/20, lines 10-11.
[18] UE 370 – PGE/300/Armstrong – Batzler/32, lines 6-7.
[19] UE 370 – PGE/300/Armstrong – Batzler/32, lines 15-17.
[20] UE 370 – Staff/200/Moore/ 9, lines 8-10.
[21] UE 370 – Staff/200/Moore/ 9, lines 7-17.

warranted. To CUB's knowledge, the Commission is going to investigate the role of Oregon Portfolio Option Committee in a generic investigation docket and CUB would be open to reviewing communications and advertising guidelines for portfolio option programs. CUB shares Staff's concerns that the messaging and marketing to renewable portfolio options customers be transparent and fair. To CUB, the RECs sold to portfolio options customers must truly create additionality. That is, those RECs must be discrete and go beyond the RECs that the Company is using for RPS compliance. Through that lens, CUB does believe that the Wheatridge RECs sold to portfolio options customers for the first five years do create additionality, since they will not be double-counted for RPS compliance purposes.

Q. What is different about Wheatridge REC's under Oregon law?

A. Staff notes that under ORS 469A.140(3)(c) allows RECs associated with the first five years of generation from facilities that become operational between March 8th, 2016 and December 31st, 2022 to be banked and carried indefinitely for the purpose of complying with a renewable portfolio standard.[22] Since Wheatridge is expected to enter service in 2020, Wheatridge RECs would be allowed to banked and carried indefinitely. These are "golden RECs" as contemplated by SB 1547 and its statutes.

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[22] UE 370 – Staff/200/Moore/5, lines 17-21.

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Q. What is Staff's reasoning around banking the Wheatridge RECs?

A. Staff argued that banking the Wheatridge RECs would likely save customers money in the long-term.[23] Staff also stated that the Wheatridge RECs provide a long-term hedge against long-term cost, risk, and higher RPS compliance targets.[24]

Q. What are the options being presented to the Commission?

A. There are two options being presented to Commission:

1. Monetize the Wheatridge REC created the first five years of commercial operation by selling the RECs to PGE's portfolio option customers.

2. Banking the REC's from Wheatridge and use the REC's as a hedge against future risks.

Q. What is CUB recommendation about REC monetization?

A. CUB recommends that the Commission approve the Company's proposal to sell the Wheatridge RECs to portfolio option customers. CUB believe that PGE's proposal should be modified to [redacted] per REC to account for the large volume of RECs that would be purchased by portfolio option customers. For its part, PGE indicated a willingness to discuss CUB's proposal further.[25]

Q. Why does CUB recommend selling the Wheatridge's RECs to portfolio option customers?

A. With CUB's modification, PGE's proposal would be mutually beneficial to portfolio option customers and PGE's ratepayers. Portfolio option customers will benefit from receiving REC's from Wheatridge which are at a [redacted]

[23] UE 370 – Staff/200/ Moore/ 6/Lines 9-10.
[24] UE 370 – Staff/200/ Moore/ 6/Lines 10-13.
[25] UE 370 – PGE/300/Armstrong – Batzler/25, lines 15-17.

[redacted]

Additionally, the REC monetization option will provide PGE's ratepayers value for the REC sales through PGE's Property Sale Balancing Account. CUB's position is also informed by PGE's analysis in the 2019 IRP around the expected value of retaining additional RECs for future RPS obligations.[26]

Q. Does this conclude your testimony?

A. Yes.

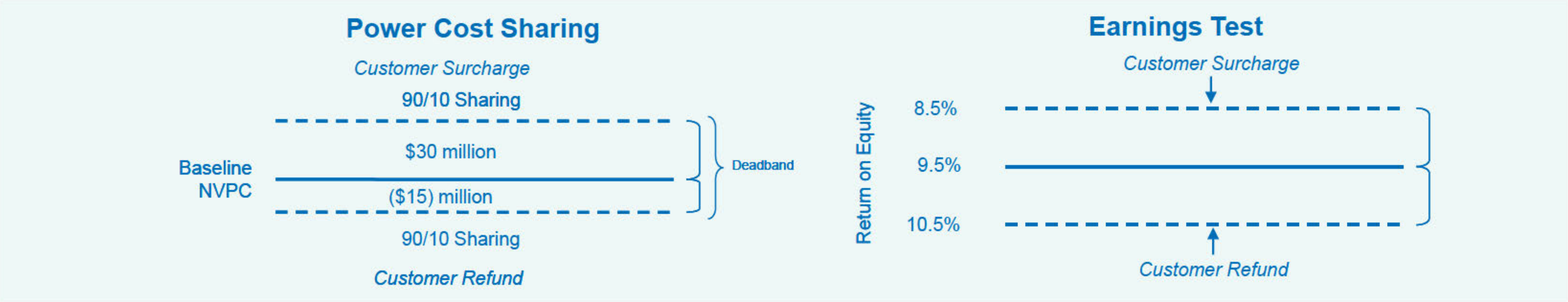
[26] UE 370 – PGE/300/Armstrong –Batzler/27-28.

Recovery of power costs

Annual power cost update tariff

- Annual reset of prices based on forecast of net variable power costs (NVPC) for the coming year
- Subject to OPUC prudency review and approval, new prices go into effect on or around January 1 of the following year

Power Cost Adjustment Mechanism (PCAM)



- PGE absorbs 100% of the costs/benefits within the deadband, and amounts outside the deadband are shared 90% with customers and 10% with PGE
- An annual earnings test is applied using the regulated ROE as a threshold
- Customer surcharge occurs if PGE's actual regulated ROE is below 8.5%; ROE will not exceed 8.5% with surcharge
- Customer refund occurs if PGE's actual regulated return is above 10.5%; regulated return will not decrease below 10.5% with refund

(Redacted Version)

Exhibit 202 is confidential and will be provided to parties who have signed protective order 19-416.