ORDER NO. 12 271

ENTERED JUL 02 2012

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1568

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY, 2011 Renewable Portfolio Standard Implementation Plan 2013-2017.	ORDER

DISPOSITION: RPS IMPLEMENTATION PLAN ACKNOWLEDGED

At its Public Meeting on June 19, 2012, the Public Utility Commission of Oregon acknowledged the 2011 Renewable Portfolio Standard Implementation Plan filed by Portland General Electric Company. Information about the plan is contained in the Staff Report attached as Appendix A. At the meeting, the Commission also heard comments on issues related to Renewable Portfolio Standard Implementation Plans, including requirements recommended by Staff, and decided to take those issues under advisement.

This order memorializes the decision of the Public Utility Commission of Oregon made and effective at a public meeting held on June 19, 2012.

Dated this 2 day of July, 2012, at Salem, Oregon.

Susan K. Ackerman
Susan K. Ackerman
Chair

John Savage
John Savage
Commissioner

SM Bloom
Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ORDER NO. 12 271

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 19, 2012

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **Upon Commission Approval**

DATE: June 11, 2012

TO: Public Utility Commission

FROM: Erik Colville

THROUGH: Jason Eisdorfer and Maury Galbraith

SUBJECT: PORTLAND GENERAL ELECTRIC COMPANY: (Docket No. UM 1568) Renewable Portfolio Standard Implementation Plan 2013-2017.

STAFF RECOMMENDATION:

Staff recommends the Commission acknowledge Portland General Electric's (PGE) 2011 Renewable Portfolio Standard Implementation Plan (RPIP), with the following requirement:

- PGE is not to include shaping costs in its next RPIP incremental cost calculation.

DISCUSSION:

Staff's report is organized into three sections. The first section provides a summary of comments and issues. The second section provides a summary of the requirements contained in OAR 860-083-0400, subject to ORS 469A.075. The third section provides an overview of the standard of review associated with Commission acknowledgement.

On December 28, 2011, PGE filed its 2011 RPIP. The purpose of the RPIP is compliance with OAR 860-083-0400.

On March 22, 2012, Staff and Parties filed initial comments, followed by PGE reply comments on April 18, 2012. Staff and parties filed final comments May 3, 2012, with PGE filing reply comments on May 31, 2012. Industrial Customers of Northwest Utilities (ICNU), Citizens' Utility Board of Oregon (CUB), Renewable Northwest Project (RNP), and Oregon Department of Energy (ODOE) filed comments.

Summary

Staff finds that PGE's RPIP shows it is positioned to be in compliance with ORS 469A.052, which states that at least five percent of the electricity sold by a large utility to retail electricity consumers must come from qualifying resources in each of the calendar years 2011, 2012, 2013 and 2014, and 15 percent in 2015. For the time period of 2013 through 2017 PGE plans to use banked bundled renewable energy certificates (REC) for compliance, with the exception of 119,108 unbundled RECs to be used in 2013 (3.9% of total RECs for 2013).

Staff also finds that PGE's RPIP shows it will not trigger the cost limit under ORS 469A.100 while being adequately prepared to meet the renewable portfolio standard (RPS) requirements of the State of Oregon. Further, Staff finds that the matters discussed below in Comments and Issues, will not likely cause PGE's incremental cost of compliance to trigger the cost limit. As a result, Staff finds no need to direct PGE to revise its 2011 RPIP.

Comments and Issues

The incremental cost calculation, which is governed by OAR 860-083-0100, was the source of most of the comments and issues in this docket. Before proceeding to discuss the specific issues, Staff wishes to highlight the goal of the incremental cost calculation. In ORS 469A.100(1) electric utilities are not required to comply with the RPS to the extent that the incremental cost of compliance exceeds four percent of the utility's annual revenue requirement. The goal of this incremental cost limit is to provide an off-ramp to protect customers and the electric utilities. The incremental cost calculation is not seeking equivalence in the comparison between a renewable resource and a proxy plant designated by the Commission. The incremental cost calculation is to compare actual costs attributable to compliance with the RPS to those of the proxy plant.

RNP and CUB succinctly comment that a straightforward cost-based comparison between RPS resources and proxy plants is most consistent with the RPS law and ensures against excessive costs efficiently, transparently and with reasonable accuracy. Following what Staff presented above as the goal of the incremental cost calculation, Staff agrees with RNP and CUB. Staff discusses below the incremental cost calculation elements at issue in this docket, in the context of the goal presented above. These issues are discussed for the purpose of providing direction for the next RPIP and not for revision of the 2011 RPIP.

Proxy Plant Type

The position of Staff, RNP, and CUB is that until and unless the Commission specifies the proxy plant as being something different, the proxy plant is a baseload combined cycle combustion turbine (CCCT). PGE's RPIP uses a CCCT as the proxy plant and thus is in compliance with the rule.

ICNU encourages the Commission to order the use of a proxy resource mix that more appropriately reflects the electric utilities' actual planned resource acquisitions during the reporting period. ICNU suggests an approach that could resemble the resource sufficiency or deficiency methodology used in PURPA avoided cost determinations.

RNP and CUB encourage the Commission instead to retain the proxy plant comparative structure that it adopted in Order No. 09-299. The Staff reasoning that led the Commission to adopt a proxy plant comparator for long-term RPS resources remains valid: "[T]he cost of a CCCT is a good approximation of the long-run equilibrium wholesale power price and is a more transparent methodology than year-by-year forecasts of wholesale spot power prices." Staff noted that if a different technology became "the incremental non-renewable generating plant in the West . . . the rules allow for a different type of proxy plant through a Commission order."

Staff notes that the goal of the proxy plant is to reflect resource acquisition if there were no RPS. Staff is not convinced that changing from a proxy plant to a proxy resource mix reflecting the electric utilities' actual planned resource acquisitions will result in a more meaningful result. A primary difficulty Staff identified with this approach is that the most objective source of such a resource mix would be the utilities' integrated resource plans, which are based on compliance with the RPS. As a result, Staff does not recommend a change in the proxy plant type.

Fuel Cost Hedging

ICNU comments that PGE's hedging costs should be removed from the incremental cost calculation, unless PGE can demonstrate that they are not expected to have a zero value on a long-term basis.

OAR 860-083-0100(7)(b) requires an estimate of the cost of hedging as much fuel price risk as can reasonably be achieved. Staff is convinced there is a non-zero cost for hedging fuel cost. Staff suggests, at the very least, the cost of hedging is the sum of transaction costs resulting from buying fuel forwards. In a literature search, Staff found that one method of calculating the cost of hedging is to find the midpoint between the expected future spot market bid-ask spread and the forward bid-ask spread. The method PGE used is similar to this forward bid-ask/spot bid-ask midpoint. Staff considers PGE's fuel hedging methodology to be reasonable, and therefore does not recommend removing it from or revising its use in the incremental cost calculation.

Firming, Shaping and Integration

At issue is whether the listing in ORS 469A.075(2)(b) of firming, shaping and integrating sets an expectation that there are three distinct services, with associated costs, that an electric utility provides in relation to renewable energy resources.

PGE presents a case that it does indeed provide firming, shaping and integrating services, with associated costs. ICNU supports PGE's methodology for firming, shaping, and integrating costs. In general, CUB and RNP disagree, centered on the assertion that PGE's definitions of firming and shaping costs are hypothetical or otherwise not based in reality.

Participants in the docket agree that integration costs should be included in the incremental cost calculation. PGE presents evidence that the integration charge includes the variable costs of its resources used to firm renewable resources, but not the fixed costs of those resources. PGE defines the fixed costs of its integrating resources as firming costs. PGE also presents a case for shaping costs, based on flattening the energy received from a wind resource so that it is comparable to the energy received from the baseload proxy plant.

After reviewing the ICNU, RNP, and CUB comments, and PGE's reply comments, Staff is convinced there is merit to the idea of distinct integration and firming services with actual associated costs. However, Staff is not convinced there is merit to including shaping services and costs. This is because shaping is a theoretical concept whereby renewable resource energy is made to be comparable to the proxy plant energy. Staff recommends PGE not include shaping costs in its next RPIP incremental cost calculation.

Carbon Dioxide (CO2) Costs

ICNU suggests that CO2 prices should not be included in the base case incremental cost calculation. PGE states it has been consistent with assumptions used in its acknowledged IRP and its IRP Update filings, which in turn follow the Commission guidance set forth in Order 08-339 regarding treatment of CO2 costs in resource planning. PGE believes that to assume a CO2 cost when developing a resource plan in the IRP process, and then assume no CO2 cost when implementing the RPS portion of that resource plan, would be inconsistent.

Staff finds that OAR 860-083-0100 requires the incremental cost calculation to reflect levelized costs over long-term time horizons. The Company's IRP evaluates the most likely scenario for the long-term time horizon and refers to it as the reference, or base, case. The Company's IRP also evaluates the RPS compliance approach with the best combination of cost and risk. There clearly is a connection between the Company's IRP and RPIP. Given the Company's identification of a most likely future, which includes a CO2 cost, Staff agrees with PGE's conclusion that CO2 costs in the RPIP should be treated in a manner consist with their treatment in the Company's IRP.

Fuel Price Forecast

ICNU comments that the utilities should use their most recently available forward price curves for the cost of natural gas in the incremental cost calculation. PGE replies that it has complied with OAR 860-083-0100(7) which requires the use of the most recent fuel price forecast filed in an avoided cost or IRP proceeding. Staff agrees that PGE complied with the rule and does not recommend varying from the rule requirement.

Summary of Requirements

Pursuant to ORS 469A.075 and OAR 860-083-0400 a utility must file an implementation plan on or before January 1, 2010, and subsequently on or before January 1st of even-numbered years, unless otherwise directed by the Commission. Substantively, the implementation plan must include the following information associated with complying with the current RPS for the compliance years 2013-2017: (1) the annual megawatt-hour target and an accounting of how the utility plans to comply; (2) identification and information on each generating facility that is expected to provide RECs; (3) a forecast of the expected incremental costs of new qualifying electricity planned for first operation in the compliance year; (4) a forecast of the expected incremental cost of compliance; [1] and (5) a forecast of the number and cost of bundled RECs issued.

Procedurally, Staff and interested parties may file comments within 45 calendar days of the filing of the RPIP. The utility may file a written response within 30 calendar days thereafter. Commission staff should present its recommendations at a Commission public meeting within 120 days of the RPIP filing date. The Commission may acknowledge the RPIP at the public meeting, subject to any conditions specified by the Commission, unless it decides to commence an investigation or take other action as necessary to make its decision regarding acknowledgment of the plan. In the event of

[1] The utility must calculate and provide information associated with the incremental cost of compliance according to the described methodology in OAR 860-083-0100.

further investigation, the Commission may acknowledge the implementation plan, subject to conditions if necessary, no later than six months after it is filed.

Standard of Review

The RPS, ORS 469A.052, states that at least five percent of the electricity sold by a large utility to retail electricity consumers must come from qualifying resources in each of the calendar years 2011, 2012, 2013 and 2014. In 2015 the percentage that must come from qualifying resources increases to 15 percent. The utility's filed RPIP should show how it plans to meet the requirement of that standard for the next odd-numbered compliance year and each of the four subsequent compliance years. Additionally, the utility RPIP must show whether or not the utility plans to meet its RPS target without triggering the cost limit under ORS 469A.100; four percent of annual revenue requirement.

Staff's substantive evaluation of the utility's implementation plan focuses primarily on whether or not the utility used consistent modeling and decision criteria as used to develop the utility's most recently filed or updated IRP. Any deviations from IRP methodologies or action plan items should be evaluated in terms of how these changes continue to achieve an appropriate balance of risk and expected system cost, as required by the IRP Guidelines 1.b and c.

As part of its compliance with ORS 469A, the utility is required to file an RPIP by January 1, 2012, which provides, among other things, a forecast of incremental costs of renewable resources from 2013 through 2017. The incremental cost calculation compares the levelized cost of a renewable resource against the levelized cost of the proxy plant. The annual incremental cost calculation for each year of the compliance period, 2013 through 2017, is the difference between the levelized cost of the renewable resource and the levelized cost of the proxy plant. The underlying assumptions used in developing the levelized cost of the proxy plant must be consistent with the most recently filed or updated IRP. OAR 860-083-0100 contains the prescribed methodology, and a list of all required information that the utility must use in calculating the incremental cost of the qualifying resource. Order No. 11-441, entered November 9, 2011, prescribes the standardized implementation plan form and preliminary key incremental cost assumptions.

Finally, the Commission "acknowledges" an RPIP that satisfies the procedural and substantive requirements, and that seems reasonable at the time acknowledgment is given.

Conclusion

Staff finds that PGE's RPIP shows it is positioned to be in compliance with ORS 469A.052, which states that at least five percent of the electricity sold by a large utility to retail electricity consumers must come from qualifying resources in each of the calendar years 2011, 2012, 2013 and 2014, and 15 percent in 2015. For the time period of 2013 through 2017 PGE plans to use banked bundled renewable energy certificates (REC) for compliance, with the exception of 119,108 unbundled RECs used in 2013 (3.9% of total RECs for 3013).

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PROPOSED COMMISSION MOTION:

The Commission acknowledge Portland General Electric's 2011 Renewable Portfolio Standard Implementation Plan, with the following requirement:

- PGE is not to include shaping costs in its next RPIP incremental cost calculation.