

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1953

In the Matter of

PORTLAND GENERAL ELECTRIC  
COMPANY,

Investigation into Proposed Green Tariff.

ORDER

DISPOSITION: GREEN TARIFF PROPOSAL APPROVED

**I. SUMMARY**

In this order, we approve Portland General Electric Company's (PGE) voluntary renewable energy tariff (VRET) proposal, resolve issues presented by parties to this proceeding, and provide guidance on issues to be further addressed during a second phase of this docket.

**II. BACKGROUND**

On April 13, 2018, PGE filed a proposed VRET with a discussion of the requirements outlined in our order in docket UM 1690. Docket UM 1690 was opened on April 22, 2014, following the passage of House Bill 4126 (HB 4126). HB 4126 directed the Commission to examine the likely effects of utility VRETs and determine whether such tariffs would be reasonable and in the public interest. The bill also provided us authority to approve VRETs.

Docket UM 1690 involved a large number of stakeholders engaged in analysis and commentary about the appropriate form and structure of VRETs in Oregon. In Phase I, Staff undertook a study, as directed by the legislature, of the potential impacts of allowing electric companies to offer voluntary renewable products meeting the five statutory factors identified in HB 4126 to nonresidential customers. The five considerations identified in HB 4126 and used to organize Staff's study were:

- Whether allowing electric companies to provide a VRET to non-residential customers promotes the further development of significant renewable energy resources.
- The effect of allowing electric companies to offer a VRET on the development of a competitive retail market.

- Any direct or indirect impact, including any potential cost-shifting, on other customers of any electric company offering a VRET.
- Whether the VRET provided by electric companies to non-residential customers rely on electricity supplied through a competitive procurement process.
- Any other reasonable consideration related to allowing electric companies to offer a VRET to their non-residential customers.<sup>1</sup>

In Order No. 15-258, we accepted Staff's study and opened Phase II to address "the threshold question of whether, and under what conditions, it is reasonable and in the public interest to allow electric companies to provide voluntary renewable energy tariffs to nonresidential customers."<sup>2</sup> In Order No. 16-251, we deferred a decision regarding whether it is in the public interest to allow electric utilities to offer VRETs to nonresidential customers, but encouraged PacifiCorp and PGE to file draft VRETs that met nine conditions:

1. Renewable portfolio standard (RPS) definitions that must apply to voluntary renewable energy products are for resource type, location, and bundled renewable energy certificates (RECs).
2. Voluntary renewable energy options should only include bundled REC products. Any RECs associated with serving participants must be retired by or on behalf of participants, unless the participants consent to RECs being retired by the utility or developer.
3. The year that a voluntary renewable energy program eligible resource became operational should be no earlier than 2015.
4. The voluntary renewable energy program size is limited to 300 aMW for PGE.
5. Voluntary renewable energy product design should be sufficiently differentiated from existing direct access programs.
6. Voluntary renewable energy product offering terms and conditions (including the timing and frequency of offerings), as well as transition

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<sup>1</sup> House Bill (HB) 4126 (2014).

<sup>2</sup> *In the Matter of Public Utility Commission of Oregon, Voluntary Renewable Energy Tariffs for Non-Residential Customers*, Docket No. UM 1690, Order No. 15-258 at 1 (Aug 28, 2015).

costs, must mirror those for direct access. PGE may propose terms and conditions that differ from current direct access provisions but must propose changes to their direct access programs to match those changes.

7. The regulated utility may own a voluntary renewable energy resource, but may not include any voluntary renewable energy resource in its general rate base. It may recover a return on and return of its investment in the voluntary renewable energy resource from the subscriber; however, the utility must share some of the return on with the other utility customers for ratepayer-funded assets used to assist the voluntary renewable offering.
8. All direct and indirect costs and risks are borne by the participating voluntary renewable energy customers, shareholders of the utility or third-party developers and suppliers with provisions allowing independent review and verification by Commission Staff of all utility costs. Costs include but are not limited to ancillary services and stranded costs of the existing cost of service rate based system.
9. All voluntary renewable offerings must be made publicly available and subject to review by the Commission to ensure they are fair, just, and reasonable.

On April 14, 2016, PGE indicated it would not propose a voluntary renewable product at that time, but requested that the Commission not foreclose a later filing. PacifiCorp did not file a draft VRET, and docket UM 1690 was closed by Order No. 16-251.

Nearly two years later, on April 13, 2018, PGE filed an application to reopen docket UM 1690 to address the company's proposed VRET program. Staff's proposal to open a new docket, UM 1953, was adopted at a prehearing conference on May 24, 2018. PGE filed supplemental testimony on August 17, 2018, and workshops among the parties to discuss the issues followed. On October 22, 2018, all parties filed cross-answering testimony. On October 28, 2018, a bench request was issued, with a response filed by PGE on November 6, 2018. Staff, AWEC, and Walmart filed replies on November 13, 2018. A hearing was held on November 20, 2018. On December 11, 2018, parties filed opening briefs. On December 21, 2018, parties filed reply briefs.

Toward the end of these proceedings, PGE changed course and revised its VRET proposal to limit its scope compared to its original proposal. In testimony filed in docket UM 1953 on October 22, 2018, PGE described the following elements of what it described as a "pilot" proposal, as part of a proposed two phase review of PGE's VRET issues:

- PGE proposes to procure through a competitive RFP a PPA or PPAs for renewable resources to create a VRET available to [all] nonresidential customers, offering no more than 100 MW of nameplate capacity through Phase 1 of the program. (Described in the remainder of this order as “PGE Supply Option.”)
- For PGE’s largest customers, those with an average load greater than 10 aMW, PGE proposes to implement a bring-your-own PPA option. This option is limited to 200 MW of nameplate capacity and is separate from the PGE-procured option. PGE proposes to retain final approval over any PPA terms and conditions. (Described in the remainder of this order as “Customer Supply Option.”)
- Subscribers to the program would receive a capacity and energy credit that would be fixed for the term of the PPA.
- PGE proposes to include a risk adjustment to the credit, which would be a decrement to the credit, depending on the tariff option selected by the subscriber.

PGE requests that we defer questions regarding long-term credit calculation, applicability of the conditions outlined above, and interactions with Oregon’s direct access program to a second phase of the docket.

### III. DISCUSSION

This decision reviews all major elements of PGE’s VRET proposal. We describe party positions, resolve each element, and provide instructions to PGE where appropriate. We adopt PGE’s request to review policy issues associated with this docket in two phases. We find that a two-phased approach to PGE’s VRET is appropriate, and will allow a more thorough review of policy questions while interim steps are taken to expand customer options. We approve PGE’s VRET proposal, with several modifications designed to ensure that an initial program minimizes the potential for negative impacts to cost of service customers and protects the competitive market for electricity as whole, while larger policy questions are resolved.

We do not consider it accurate to describe PGE’s proposal as a “pilot.” PGE may procure up to 300 MW of new nameplate resources through PPAs under this program. Under our competitive bidding rules, for example, such a procurement would qualify as a major resource. Instead of a pilot, we recognize this program as the first phase of a VRET offering, which may be followed by a second phase following the continuation of this proceeding.

## **A. Incremental Credits**

Through PGE's VRET model, PGE will procure new renewable supply through a PPA. Participating customers pay all cost of service rates, and are charged a subscription based on PPA costs and the cost of a risk adjustment, described below. Participating customers receive credits for energy and capacity provided by the PPA projects. Various proposals from parties include or prohibit the possibility for an incremental credit for participating customers. As described and understood in this order, an incremental credit is a credit amount that exceeds customer costs associated with electricity supply, resulting in net savings for participating customers where an incremental credit is allowed.

### **1. PGE's Proposal and Party Positions**

PGE proposes that for the PGE Supply Option of its VRET proposal, it will not allow participants to receive an incremental credit. Effectively, this prohibits participants in the VRET proposal from receiving lower than cost of service rates because a credit could under no circumstance exceed participating customer supply costs. PGE would not be opposed to a customer participating in the Customer Supply Option receiving an incremental credit, should a participating customer obtain a PPA with a term and terms and conditions acceptable to PGE, at a cost below the proposed fixed credit rate.

Staff and CUB, as well as NIPPC and Calpine Solutions, support PGE's proposal not to allow an incremental credit for the PGE Supply Option and assert that this prohibition should be extended to the Customer Supply Option. They argue that the prohibition protects cost of service customers and the competitive market in Oregon. Walmart and AWEC support the concept of an incremental credit. They assert that if a customer supports the development of a resource that provides the system more benefits than costs, customers should be permitted to retain a portion of those benefits.

### **2. Resolution**

We approve PGE's proposal to prohibit incremental credits to participating customers as part of the PGE Supply Option. The program credit represents the amount that cost of service customers are paying for the resource. As PGE's proposal fixes the program credit a participating customer receives for several years into the future, there is credit forecast uncertainty. This places the risk of the resource choice and its cost-effectiveness over time on the cost of service customers. A credit that updated in a predictable way periodically would shift that risk to the participating customer, creating an opportunity for us to consider allowing a credit that could result in overall bill savings. Absent such a mechanism to balance the risk of credit forecast uncertainty between participating customers and cost of service customers, we approve PGE's proposal to prohibit incremental credits. The result of this decision is that pilot participants cannot receive a credit from the program that exceeds the cost of participating in the program.

With respect to the Customer Supply Option, we find that incremental credits should similarly be prohibited based on the same rationale. However, we note that as customers

and PGE explore potential PPAs we will entertain individual applications for arrangements with a floating credit, which do not guarantee net savings to a participant, but may result in net participant savings. In such a circumstance, participants and not cost of service customers would bear credit inaccuracy risk. Allowing such applications as part of the Customer Supply Option will provide the opportunity to gain experience with allocating these risks and benefits to participants, and a floating credit option could in the future be made part of the program as a whole. We explored this concept through the bench request of October 29, 2018.

Finally, we request that as part of the second phase of this proceeding, PGE should review and discuss how the VRET program is addressed and incorporated within the IRP process. IRPs should consider any system impacts of adding significant new resources not incorporated in planning processes and also address impacts on future optionality for cost of service customers.

## **B. Capacity Credit Calculation**

### ***1. PGE's Proposal and Party Positions***

PGE's VRET proposal includes the provision of a credit for both energy and capacity, along with risk adjustment charges. However, some parties object to the provision of a capacity credit if it is not reflected in the direct access program, and parties offer several proposals for calculating the capacity credit. PGE proposes we adopt its QF method, which would use the value of PGE's proxy capacity resource, the capacity contribution of the PPA resource, and PGE's sufficiency/deficiency period as determined by the Commission approved period.

Staff proposes that we adopt the capacity methodology from PGE's IRP. This method utilizes modeling to calculate the capacity contribution of a resource and provides a valuation based on assumptions using least cost planning. This is not PGE's proposed approach, but PGE does agree with it as an alternative to the company's preferred option.

AWEC would value the credit based on the marginal cost of capacity used in PGE's most recent general rate case, and apply it only during periods of resource deficiency. The credit would change based on changes to the long-run marginal costs in subsequent rate cases.

NIPPC and Calpine Solutions argue that we should not allow a capacity credit to be reflected in PGE's VRET proposal without reflecting capacity value in PGE's direct access program. However, both NIPPC and Calpine Solutions note that, because the stipulation in PGE's last rate case settled direct access issues in PGE's service territory until the filing of another rate proceeding and retained a five-year opt-out period, they would not insist that a capacity credit be immediately reflected in the direct access program. In the alternative, they request that, if we approve the VRET proposal for PGE, we express an intention to address capacity issues in the context of direct access at the next opportunity, which would likely be during PGE's next rate proceeding.

## **2. Resolution**

We approve PGE's proposal to offer a capacity credit as part of its VRET program, but direct PGE to utilize Staff's preferred method for determining capacity value, as outlined in Staff testimony. We find that Staff's testimony and proposal describes the methodology most likely to result in the most accurate capacity values in near term, of the options presented by parties.

We recognize that this methodology differs from our determination from our order in docket UM 1912, PGE's RVOS proceeding. In that proceeding, we ordered PGE to use a variation of its QF capacity calculation method to determine the capacity value in the RVOS model. We distinguish that decision from the determination we make in this docket by noting that PGE's VRET program, although PGE has termed it a "pilot" program, has the potential to result a major acquisition of up to 300 MW of nameplate capacity. In such a circumstance, the most accurate method for valuing capacity we can identify should prevail.

In our docket UM 1912 order, we placed a high value on transparency in the calculation of RVOS values, as RVOS has been designated as a tool that is applied to smaller projects (distribution scale projects primarily), such as Community Solar installations which are limited up to 3 MW. In contrast, projects in PGE's VRET program will be larger in size and will likely not be interconnected at the distribution level. As a result, as we do with larger QFs, we prioritize accuracy in the calculation of the capacity values.

Ideally, for all capacity value applications, pricing would be temporally granular, reflecting peak and surplus times of day and year, accurate and transparent. We desire, as we discussed in our order in docket UM 1912, to develop a uniform understanding of the value of capacity across all applications in order to effectively pay resources for the value they bring to the system. Eventually, we expect the to-be-opened capacity value investigation to yield a procedure for identifying capacity value that is increasingly granular, accurate, and transparent to market participants and customers.

### **C. Risk Adjustment**

PGE's proposal includes a risk-adjustment charge to participants that is intended to protect shareholders against the possibility of under-subscription, or from bearing costs if the terms of customer subscriptions fail to match that of the PPA. Walmart objects to the risk adjustment, arguing that this charge is arbitrary and has not been justified by PGE.

We find that PGE's risk adjustment charge is reasonable. PGE's program design protects cost of service customers by insulating them from the risks associated with under-subscription of a specific VRET offering. If sufficient numbers of customers do not subscribe to the option, then PGE shareholders, not ratepayers, will be responsible for managing that shortfall and any losses associated with the cost of VRET resources and PGE's failure to procure adequate subscriptions. As part of its terms and conditions,

PGE's risk adjustment charge is a justified element that takes into account the possibility for under-subscription.

**D. Customer Supply Option Eligibility**

**1. PGE's Proposal and Party Positions**

PGE's Customer Supply Option is limited to only the largest customers, those with loads of 10 aMW. As part of the proposal, PGE reserves the right to reject any PPA, and must approve of all PPA terms. Walmart argues that despite the fact that its load on an individual account and aggregate basis is well below the 10 aMW threshold, its national footprint makes it similarly capable of negotiating sophisticated PPA arrangements. As a result, Walmart objects to the 10 aMW eligibility threshold for participation in the program. Walmart also objects to the requirement that PGE must approve of the terms of any PPA arrangement.

**2. Resolution**

We approve PGE's proposal both to set the Customer Supply Option participation limit at 10 aMW, and PGE's proposal review and amend all contract terms. That noted, we require that PGE develop and publish minimum PPA standards so that customers may access clear information about PPA requirements, so that all eligible customers will have non-discriminatory access to Customer Supply Option. All eligible customers must have equal access to this program opportunity, within the size limits of the program PGE has proposed. Accordingly, PGE must make objective PPA criterion available to participating customers as part of the program offering.

While we do not require PGE to open this option to customers smaller than 10 aMW in size for this limited initial option, Walmart raises an argument that size may not be the only criteria in determining the ability to effectively negotiate a competitive PPA and we will examine this issue in the second phase.

**E. Review of the Nine Conditions**

As part of Phase 2 of this proceeding, we will review and reconsider the nine conditions for VRET program development we identified in Order No. 16-251. We see a need to assess changes in Oregon's competitive electricity supply market and in the renewable energy development marketplace since 2016 as part of a reconsideration of the nine conditions. In approving PGE's program, we apply flexibility in applying the nine conditions, because we do not require exactly the same terms and conditions as the Direct Access program.

This reflects our view that significant differences in the ways a utility offering and the direct access program affect cost-of-service customers may warrant different terms and conditions for the programs. A review of the nine conditions is appropriate in light of these differences and the clarity offered by a specific proposal from PGE.



**IV. ORDER**

IT IS ORDERED that:

1. Portland General Electric Company is authorized to develop and offer a voluntary renewable energy tariff program consistent with this order.
2. Portland General Electric Company is ordered to propose a schedule for the second phase of this proceeding. This phase shall allow for parties and the Commission to examine the following issues, among others: credit calculation, reassessment of previously adopted conditions, the participation limitations of any bring-your-own PPA program, VRET interactions with Oregon's Direct Access Program, and other policy issues as identified by parties in the course of the investigation.

Made, entered, and effective Mar 05 2019.



**Megan W. Decker**  
Chair



**Stephen M. Bloom**  
Commissioner



**Letha Tawney**  
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.