BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

Docket No. LC 70

In the Matter of PacifiCorp's Integrated Resource Plan	Comments on PacifiCorp's September 27, 2019 Notice of Exception to the Competitive Bidding Rules

Background

On September 27, 2019, PacifiCorp filed a notice of exception pursuant to OAR 860-089-0100, which states that an electric company is not required to comply with the Commission's competitive bidding requirements to acquire a resource when there is "a time-limited opportunity to acquire a resource of unique value to the electric company's customers" and that "within 30 days of seeking to acquire a resource … the electric company must file a report with the Commission explaining the relevant circumstances. The report must be served on all the parties to the electric company's most recent rate case, RFP, and IRP dockets."[1]

PacifiCorp's September 27th notice of exception filing describes the Pryor Mountain Wind Project (Project), a collection of three 80 MW projects together with the associated tie-line in Montana and Wyoming, that will qualify for 100% of the PTC if operational by the end of 2020. The Company states that it has evaluated the economics of the project consistent with the methodology used to assess bids in the 2017R RFP in Docket, UM 1845. Staff has not had the opportunity to review workpapers and inputs from the Company's modeling process. The Company's filing describes the process of modeling the resource in Planning and Risk (PaR), the Company's production cost modeling software, and shows that the benefits of the project could range from $-6 million to $84 million, depending on modeling assumptions, including carbon prices and natural gas prices.[2]

The Company adds that it has reached an agreement with Vitesse, a subsidiary of Facebook, under which Vitesse will purchase all of the RECs from the Project as an unbundled REC product under Schedule 272. This agreement with Vitesse is described as a necessary milestone for PacifiCorp to move forward with the Project that mitigates the risk of deteriorating value in some potential carbon and natural gas price futures.

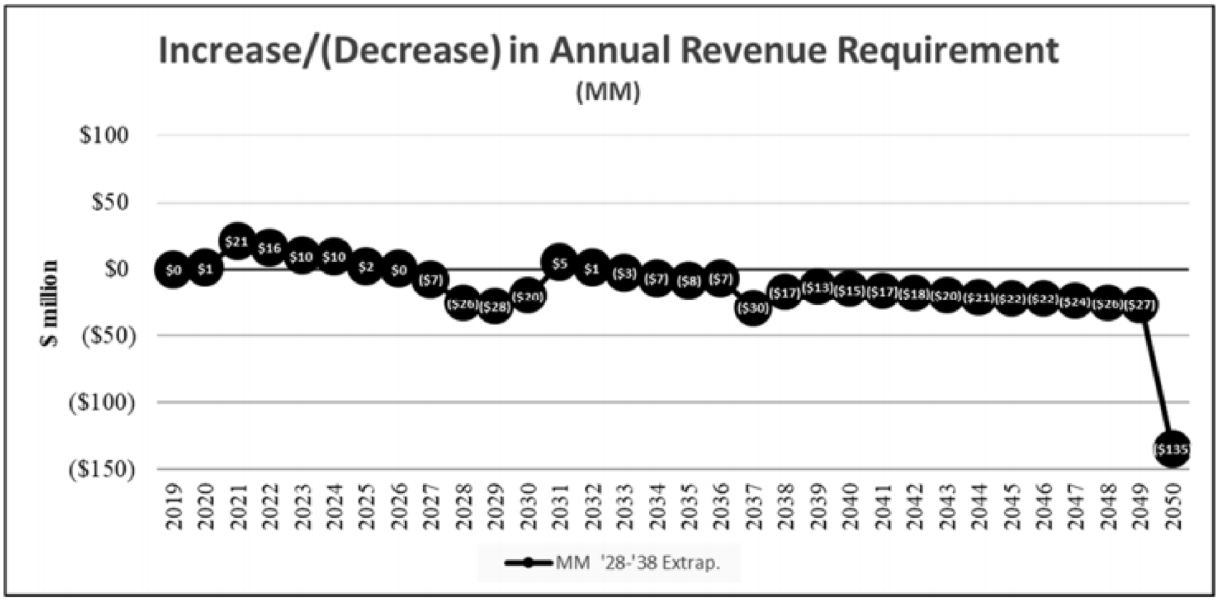
Analysis

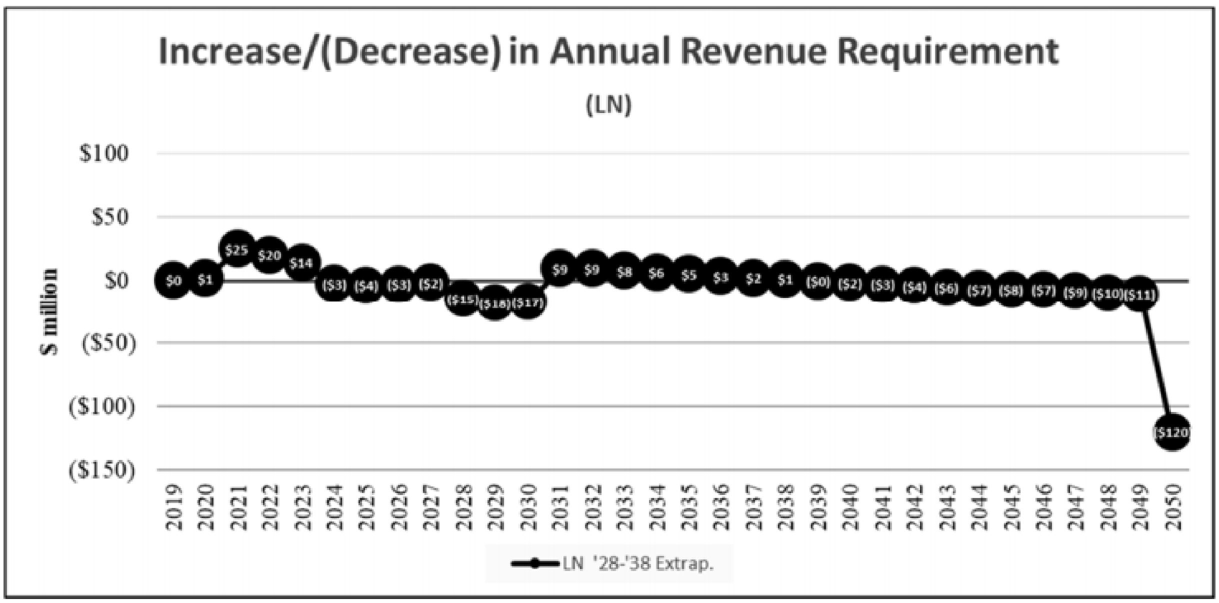
Little information is provided about the project in the Company's filing, or about the Company's reasoning for defining it as a time-limited opportunity to acquire a resource of unique value to customers. Staff finds it difficult to assess the project's economics without an opportunity to evaluate modeling inputs and workpapers, and does not find an exception to the competitive bidding rules to be warranted based on the limited information provided in PacifiCorp's filing.

One concern, based on the limited information in the Company's filing, is that a portion of the project's potential benefit appears to be attributable to a dramatic increase in benefits in 2050:

[1] OAR 860-089-0100(3), OAR 860-089-0100(4).

[2] In the Matter of PacifiCorp dba Pacific Power, 2019 Integrated Resource Plan, Docket LC 70, PacifiCorp Notice of Exception (September 28, 2019) (Notice of Exception).





[3]

Staff is concerned this portion of the expected benefit could be the result of an un-realistic end-effect in PacifiCorp's modeling. Without the outlier $120 million benefit in 2050, the total benefits of this project would be reduced. In the case of a low-carbon-price, low-natural-gas-price future, the projected benefits are small enough that replacing the outlier with an average value would likely turn any expected net benefit into an overall net cost.

[3] PacifiCorp Notice of Exception. Page 5.

Price Policy Scenario	PVRR(d) Net (Benefit)/Cost ($million)	Nom. Lev. Benefit ($/MWh of Incremental Energy)
MM ('28-'38 Extrapolation)	($71)	($7.43)
MM ('34-'38 Extrapolation)	($84)	($8.77)
LN ('28-'38 Extrapolation)	→ $6	$0.66
LN ('34-'38 Extrapolation)	→ ($9)	($0.93)

[4]

While the modeling seems to indicate the project may have value to customers, it is less clear from the Company's filing whether the project is a 'unique value' to customers. Additionally, the Company's modeling does not take into account some risks of the project. New, PTC-dependent wind projects are riskier than PacifiCorp's modeling has accounted for. For example, a construction delay could make the project ineligible for any PTCs, or a lower-than-expected capacity factor could cause a sub-optimal resource to be locked into PacifiCorp's resource mix for decades. Alternatively, an unexpected renewal of the PTC could make this opportunity relatively less valuable compared to potential future wind resources. These are foreseeable risks the Company should consider that are not included in PacifiCorp's modeling.

Procuring this resource outside of both the Commission's least-cost, least-risk planning process and competitive bidding process circumvents ratepayer protections designed to ensure fair and reasonable rates for Oregon ratepayers. If PacifiCorp moves forward with this project, Staff observes that at the time of a decision on rate recovery, ratepayers should be protected from risks associated with the loss of PTCs from things such as construction delays, lower than expected capacity factors, etc. Further, because this acquisition is occurring outside of all normal Commission planning processes, the full risk of any net costs associated with the project, as compared to an optimal long-term portfolio of resource investments, should rest with PacifiCorp and not with ratepayers.

Should PacifiCorp decide to move forward with the development of the Pryor Mountain Wind Project, the Company will need to demonstrate this was a unique, time-limited opportunity such that a competitive bidding process was not required at the time of filing for rate recovery. The Company will additionally have to prove that the acquisition was a least-cost, least-risk decision for ratepayers and was implemented prudently, based on the information available to the Company at the time it made the decision.[5] There is no means by which the resource can be acknowledged. The Notice of Exception was filed on September 29, 2019, before the Company's Integrated Resource Plan was filed on October 18, 2019. If the 2019 IRP is acknowledged with the Pryor Mountain Wind Project included as an existing resource in the preferred portfolio, that acknowledgement should in no way be interpreted as an acknowledgement of the prior decision by the Company on the Pryor Mountain Wind Project. An IRP is a planning instrument for determining "future long-term resource needs" and developing an action plan to develop or acquire resources to meet those needs.[6] No prior IRP provided an acknowledged alternative acquisition method for this resource per OAR 860-089-0100(3)(c). The Company did not seek a waiver of the competitive bidding rules before it took action, meaning acknowledgment is not an option under those rules.[7]

[4] PacifiCorp Notice of Exception. Page 4.
[5] In the Matter of PacifiCorp, Docket UE 246, Order No. 12-493 at 25-27.
[6] OAR 860-027-0400(2).
[7] OAR 860-089-0010(2)(b), OAR 860-089-0500(1).

Staff would like to comment on the use of Schedule 272 versus other green energy options such as a potential Voluntary Renewable Energy Tariff (VRET). The VRET is designed to link incremental energy acquisitions to utility customers within a context that balances the needs of the large commercial customer with protections for other cost of service customers. Schedule 272, on the other hand, is a tariff by which customers can pay PacifiCorp to acquire Renewable Energy Certificates (RECs) on the customer's behalf, but the customer is still served by system energy.[8] The unbundled RECs either go to the customer's WREGIS account, or are retired on the customer's behalf by PacifiCorp.[9]

As PacifiCorp noted during its latest revision to Schedule 272, this product provides the customer with a quantity of unbundled RECs, but does not call for the Company to make system energy procurement decisions on behalf of the participating customer.[10]

A VRET, however, could be designed to allow energy and the associated bundled RECs to be procured on a customer's behalf, while providing protections for the utility's other customers.[11] Staff encourages PacifiCorp to file a VRET with the Commission so renewable energy acquisition for large commercial customers can take place within the guidelines and protections intended in the VRET docket, UM 1690.

Finally, Staff would like to make sure that large customers are fully aware of all possible voluntary products available to them as PacifiCorp customers. If Vitesse, Facebook or other large customers would like to support incremental, local, renewable energy outside of REC purchases under Schedule 272, or a future bundled VRET product, the Community Solar program should also be considered as an option to supply a portion of the customer's energy. The Community Solar program may align with large customers' corporate goals in that it can help reduce power bills while helping to provide the benefits of solar access to a wider range of residential and low-income customers in Oregon.

Conclusion

Staff does not find this exception to the competitive bidding rules to be warranted based on the limited information provided in PacifiCorp's filing. There are concerns about the project economics, especially the large portion of benefits forecasted in 2050 which may be skewing analysis. There is no available process for acknowledgement of this resource, and the Company will need to demonstrate application of the exception cited with this filing and prudence of its action in any rate recovery proceeding for Pryor Mountain Wind Project costs. Staff suggests the following steps by the Company will be relevant in any future rate proceeding and of assistance to large customers:

- Quarterly reporting to Staff on Pryor Wind Project technical and financial performance, including tracking of forecasted versus actual PTC.
- Shareholder responsibility for any shortfall of forecasted PTC revenue from the Pryor Wind Project. Ratepayers should receive the full forecasted PTC value through annual power cost filings.
- PacifiCorp should file a VRET prior to acquiring any more RECs from new PacifiCorp-owned resources on behalf of large customers under Schedule 272.

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[8] See Staff's report in Docket No. ADV 386 Page 7.
[9] PacifiCorp Schedule 272, Page 3.
[10] See PacifiCorp's Comments regarding Advice No. 16-01 in Docket No ADV 386. Page 1.
[11] Order No 15-405 and Order No 16-251 in Docket No. UM 1690.

- PacifiCorp should inform all large commercial customers, including those with REC purchases under Schedule 272 of the Community Solar Program and how a solar system could be optimally co-located at one of their data centers given the large onsite load.

This concludes Staff's comments on PacifiCorp's September 27, 2019 Notice of Exception to the Competitive Bidding Rules

Dated at Salem, Oregon, this 25th day of October, 2019

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