

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 22, 2016

REGULAR X CONSENT EFFECTIVE DATE April 1, 2016

DATE: March 14, 2016

TO: Public Utility Commission

FROM: Brittany Andrus *BA*

THROUGH: Jason Eisdorfer *JE* and Aster Adams *AA*

SUBJECT: PACIFIC POWER: (Docket No. UM 1729(1)) Updates Qualifying Facilities
Avoided Cost Payments, Schedule 37.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order suspending for further investigation Pacific Power's (PacifiCorp) update to Schedule 37, Avoided Cost Purchases from Qualifying Facilities (QFs) 10,000 kW or Less, filed on March 1, 2016.

ISSUE:

Whether the Commission should approve PacifiCorp's post-Integrated Resource Plan (IRP) revisions to Schedule 37, which contain the power prices paid to QFs. Staff recommends the Commission suspend the filing to allow opportunity for further investigation into PacifiCorp's filing before deciding whether to approve the revisions.

RULES, ORDER, AND APPLICABLE STATUTES:

OAR 860-029-0080 provides, in relevant part:

(3) Each public utility shall file with the Commission draft avoided-cost information with its least-cost plan¹ pursuant to Order No. 89-507 and file final avoided-cost information within 30 days of Commission acknowledgment of the least-cost plan to be effective 30 days after filing. The information submitted shall be maintained for public inspection and include the following data for calculating avoided costs:

(a) The estimated avoided costs on its system, solely with respect to the energy component, for expected levels of purchases from qualifying

¹ The term "least cost plan" is equivalent to "integrated resource plan," or "IRP."

facilities. The levels of purchases shall be stated in blocks of not more than 100 megawatts for systems with peak demand of 1,000 megawatts or more and in blocks equivalent to not more than 10 percent of the system peak demand for systems of less than 1,000 megawatts. The avoided costs shall be stated on a cents-per-kWh basis, during peak and off-peak periods, by year, for the current calendar year and each of the next five years; and

- (b) The public utility's estimated capacity costs at completion of the planned capacity additions and planned capacity firm purchases, on the basis of dollars per kW, and the associated energy costs of each addition or purchase, expressed in cents per kWh. These costs shall be expressed in terms of individual generating resources and of individual, planned firm purchases.

* * * * *

- (6) State review: Any data submitted by a public utility under this rule shall be subject to review and approval by the Commission. In any such review, the public utility has the burden of supporting and justifying its data. Any standard rates filed under OAR 860-029-0040 shall be subject to suspension and modification by the Commission.

ANALYSIS:

Filing

Order No. 16-071 acknowledging PacifiCorp's 2015 IRP was issued on February 29, 2016 in Docket No. LC 62. Under OAR 860-029-0080(3), PacifiCorp was required to file its updated avoided costs by March 30, 2016. The Company chose to make the filing the day after IRP acknowledgment, which is within its discretion.

The updated avoided costs in this filing are based on inputs from the 2015 IRP, and on forward gas and electricity prices from the Company's December 2015 Official Forward Price Curve.² The updated avoided costs in PacifiCorp's March 1 filing update Pacific Power's current standard avoided costs that went into effect on June 24, 2015, following the May 1 annual update for that year.

² March 1 UM 1729(1) filing, Appendix B, p. 4.

Analysis

The avoided cost prices in PacifiCorp's March 1, 2016, filing incorporate updated inputs from the Company's 2015 IRP and natural gas prices and forward market electricity prices based on the Company's official forward price curve. Consistent with the 2015 IRP, the avoided costs are based on a thermal resource acquisition in 2028, and no renewable resource acquisition during the 20-year planning period. Because there is no acquisition of a renewable resource, the recent Production Tax Credit extension³ is not a factor in the renewable avoided costs.

The avoided cost prices as filed are significantly lower than those currently in place. Based on Staff's limited review, two factors drive the bulk of this decrease: 1) lower natural gas and electricity prices drive low market prices during the sufficiency period, and 2) extension of the sufficiency period based on the delayed year of resource acquisition.

Staff calculated the difference between current and proposed avoided cost prices for a baseload QF under both a nonrenewable and renewable standard contract. The prices below represent the fixed payment streams of the weighted on-and off-peak prices for 15 years, levelized at the Company's authorized rate of return, for the period 2016 through 2030. Staff also includes the avoided costs that were in place prior to June 24, 2015, to provide additional information on avoided cost price trends.

Table 1.

	Non-renewable Baseload	Renewable Baseload
Effective August 20, 2015	\$48.40	\$62.10
Effective June 24, 2015	\$39.31	\$56.62
Proposed	\$33.10	\$32.55
Change	-15.8%	-42.5%

Comments

On March 8, 2016, Staff notified Docket No. UM 1610 parties that PacifiCorp had filed updated avoided costs based on its acknowledged 2015 IRP, and that Staff would add the item to the agenda for the March 22 Public Meeting. Comments received by

³ Consolidated Appropriations Act, 2016 (H.R. 2029, Sec. 301).

March 11 have been incorporated into this Staff report. Renewable Energy Coalition, Community Renewable Energy Association, and Obsidian Renewables, LLC submitted joint comments (Joint Qualifying Facilities [QF] Parties). Renewable Northwest (RNW) also filed comments. The Company has indicated to Staff that it intends to file responsive comments for Commission consideration prior to the March 22 Public Meeting.

The Joint QF Parties urge the Commission to suspend and investigate the avoided cost update, or alternatively, to reject the filing and order PacifiCorp to file revised avoided costs after its IRP has been updated to incorporate changes due to the recent passage of Senate Bill (SB) 1547.⁴ This legislation increases the Renewable Portfolio Standard (RPS) obligations, requires the removal of coal resources from Oregon rates, and changes the accounting method for Renewable Energy Credits (RECs).⁵ The Joint QF Parties note that the Commission has an established process for reviewing post-IRP acknowledgment avoided cost updates that provide an opportunity for Staff and interested parties to review and challenge the assumptions that were used.⁶ The Joint QF Parties question the use of the "first major resource acquisition in the action plan of the most recent IRP...."⁷ to define the beginning of the resource deficiency period, because the sufficiency/deficiency demarcation is not within the IRP action plan time period and therefore does not receive close review by the Commission. The Joint QF Parties state that the IRP guidelines require PacifiCorp to file an update because it now needs to incorporate changes due to SB 1547.⁸ Finally, the Joint QF Parties state that they believe the sufficiency/deficiency demarcation issue is more appropriately considered in an IRP Update filing rather than an avoided cost update proceeding, noting that parties other than QFs are impacted and should have the opportunity to participate in the process.⁹

RNW also urges the Commission to reject PacifiCorp's avoided cost update, because assumptions in the 2015 IRP are no longer accurate. RNW also discusses the passage of SB 1547, and its impact on the Company's resource requirement.¹⁰ RNW also states that the extension of the Production Tax Credit and the Investment Tax Credit by Congress in 2015 impacts the 2015 IRP assumptions for the RPS compliance and the timing of future resource acquisitions.¹¹

⁴ Joint QF Parties Comments p.1.

⁵ See 2016 Senate Bill 1547 Enrolled.

⁶ Joint QF Parties Comments pp. 2-3.

⁷ Joint QF Parties Comments p. 4, referencing Order No. 06-538.

⁸ Joint QF Parties Comments pp. 3-4.

⁹ Joint QF Parties Comments p. 6.

¹⁰ RNW Comments pp.1-2.

¹¹ RNW Comments p. 2.

Conclusion

Staff is aware that the passage of SB 1547 will impact the utilities' resource acquisition plans, and that the impacts are likely to be significant. Staff does not take a position in this report on whether the Commission should reject PacifiCorp's March 1, 2016, avoided cost filing on the basis that it does not take into account the effect of SB 1547 on potential resource acquisitions. Staff will consider this question when investigating PacifiCorp's avoided cost filing. In any event, because Staff requires additional time for its review, and because other parties should have the opportunity to challenge the IRP inputs, Staff recommends that the Schedule 37 filing not be allowed to go into effect on April 1, 2016, and that the Commission allow additional time for review.

PROPOSED COMMISSION MOTION:

Pacific Power's annual update to Schedule 37, Avoided Cost Purchases from Qualifying Facilities (QFs) 10,000 kW or Less, not go into effect on April 1, 2016.