Agenda Date: March 12, 2020
Item Numbers: A2

Docket: UE-190666
Company: Pacific Power & Light Company

Staff: Kyle Frankiewich, Regulatory Analyst

Recommendation

Staff recommends that the commission issue an order rejecting this tariff and requiring the company to file a revised tariff consistent with the following commission actions and direction on or before April 3, 2020:

- waiving WAC 480-106-040(1)(b)(i) and requiring the company to calculate the avoided cost of capacity for solar resources with the following inputs, rather than those in the company's most recently acknowledged IRP:
    - fixed costs for solar based on the results of the company's recent solar resource request for proposals; and
    - a capacity contribution of two percent, the calculation independently derived by Puget Sound Energy and Avista Corporation;
- requiring the company to include a Washington-specific capacity contribution calculation for renewable resources in its next IRP;
- specifying that the above waiver is granted only until the PURPA tariff update after the company's next IRP is acknowledged;
- requiring the company to remove the 30-day notice requirement from its tariff; and
- requiring the company to file standard power purchase agreements as attachments to this tariff by May 29, 2020.

If the commission does not accept the use of capacity contribution calculations borrowed from the two other electric utilities regulated by the commission, staff alternatively recommends that the commission's order require Pacific Power & Light Company to produce a Washington-specific renewable resource capacity contribution study, and direct the company to file revised avoided cost rates based on the results of this study by May 29, 2020.

Background

On June 12, 2019, the Washington Utilities and Transportation Commission (commission) concluded its rulemaking under Docket U-161024 with an order amending, adopting, and repealing parts of the Washington Administrative Code (WAC). Among other changes, the commission added a new Chapter 480-106 WAC revamping the implementation of the Public Utility Regulatory Policies Act (PURPA), which requires utilities to purchase energy and capacity from small power producers, also called qualifying facilities (QFs). The three investor-owned electric utilities regulated by the commission filed tariff revisions updating their tariffs to implement the requirements of the new rules on August 9, 2019. Discussions with the utilities and interested stakeholders prompted commission staff (staff) to bring these tariff revisions to the open meeting on September 12, 2019, for commission discussion and stakeholder input.

During and after the September 12 open meeting, Pacific Power & Light Company (Pacific Power), interested stakeholders and staff agreed to build a record to better explain the many components of the proposed tariff. Pacific Power agreed to provide a more robust filing supporting the company's proposed tariff, and agreed with the Northwest and Intermountain Power Producers Coalition (NIPPC) and the Renewable Energy Coalition (REC) to a timeline for filing comments and responses to this docket. This docket was also discussed at the January 23, 2020, open meeting. At that meeting, staff recommended that the commission reject the company's tariff revision and require the company to revise Schedule QF to address nine items identified by staff.

Discussion

At the January 23 open meeting, staff contended that Pacific Power's compliance filing did not comply with PURPA, Chapter 480-106 WAC and the commission's General Order R-597. The company's representatives agreed to file a revised tariff aligning with the commission's guidance by February 28, 2020. The company has done so in its most recent set of replacement pages.

As described in the company's cover letter, the February 28 filing does three things:

- Addresses the issues identified by staff in the January 23 open meeting memo.
- Provides a sensitivity exploring the impact of the date of the "next planned capacity addition." Staff contend that the company's 2017 IRP clearly identifies this date as 2028, while Pacific Power contends that 2021, the anticipated in-service date for the resources acquired through its 2017 solar request for proposals (2017S RFP), is more appropriate.
- Requests a waiver of requirements under WAC 480-106-040 to allow the company to set the combined energy and capacity avoided price for solar resources based on the average price of the shortlist bids in its 2017S RFP.

Issues identified in January 23 open meeting memo
The January 23 memo identified nine items that prevented staff from recommending that the commission allow this tariff to go into effect. Based on the commission's direction during the open meeting discussion, staff and Pacific Power have worked together to implement most of these recommendations. Staff commends Pacific Power for the company's willingness to engage in productive collaboration. Below, staff explores Pacific Power's handling of the nine identified issues.

1. *Gas Peaker Proxy – no adjustments to fixed costs:* Pacific Power has revised its schedule to align with the commission's direction.
2. *Gas Peaker Proxy – use proxy from 2020 through 2027:* Pacific Power has revised its schedule to align with the commission's direction.
3. *Non-wind, non-solar QFs – clarification of tariff offerings:* Pacific Power has revised its schedule to align with the commission's direction, though the adjustment may create some confusion about RCW 80.80.040-Non-Compliant QFs.

4. *Next Planned Capacity Addition – no capitalized energy cost adjustment:* Pacific Power has removed the capitalized energy cost adjustment, per the commission's direction.
5. *Large QF Avoided Cost Methodology – separate filing:* Pacific Power has revised its schedule to align with the commission's direction. In its February 28 cover letter, Pacific Power committed to file this methodology within 45 days of the resolution of this docket.
6. *Contracting Process and Timeline – remove interconnection study requirement in tariff:* Pacific Power has revised its schedule to align with the commission's direction. The company retained the requirement that prospective QFs provide all available interconnection materials. Staff supports this language.
7. *Contracting Process and Timeline – no "proposed final version" and defined timelines:* Pacific Power has revised its schedule to align with the commission's direction.
8. *Contracting Process and Timeline – extend 15-day signing window for final PPA:* Pacific Power has revised its schedule to create a signing window of 45 calendar days. This does not perfectly align with Puget Sound Energy's (PSE) signing window of 45 business days, but the open meeting conversation on this topic leads staff to the position that this sufficiently aligns with the commission's direction.
9. *Contracting Process and Timeline – remove 90 days' notice before complaint to WUTC:* Pacific Power has shortened the notice requirement from 90 days to 30 days. While the open meeting conversation on this topic left room for differing understandings of the commission's direction, staff maintains that any notice requirement unnecessarily limits the right of both parties to bring a complaint to the commission.

Waiver to set avoided capacity costs for solar based on 2017 Solar Request for Proposals (RFP)
WAC 480-106-040(1)(b)(i) requires utilities to calculate avoided cost of capacity "based on either the estimates included in its most recently acknowledged integrated resource plan or the most recent project proposals received pursuant to an RFP issued consistent with Chapter 480-107 WAC, whichever is most current[.]" Pacific Power's earlier proposals would use the results of this RFP to establish the avoided cost of capacity. For these earlier proposals, staff agreed with the utility that the RFP data is a more accurate reflection of the current market than the resource cost assumptions contained in the 2017 IRP. Pacific Power's February 28 filing goes further, requesting a waiver to set the company's PURPA rates reflecting avoided costs for solar resources – both avoided capacity costs and avoided energy costs – at $37.24/MWh for the duration of the PURPA PPA term.

Staff has reservations about allowing this simplistic representation of the utility's avoided costs because it undermines the rationale and methodology set forth in the commission's newly-adopted PURPA rules. WAC 480-106-040(1) requires that utilities to file a schedule "that identifies, both separately and combined, its avoided cost of energy and its avoided cost of capacity." Under PURPA, QFs are entitled to sell energy, or capacity, or both. This entitlement requires separate valuations of capacity and energy. While one could argue that the average price from the 2017R RFP shortlist is an avoided cost of energy and capacity combined, but the two avoided cost components are inseparable.[1]

[1] Docket UE-190666 Pacific Power & Light Company's Compliance Filing and Request for Waiver, filed February 28, 2020, page 5; citing the utility's 2017 IRP.

Two inputs to Pacific Power's avoided cost calculations appear to largely drive the company's comparatively high avoided cost rates for solar resources: the company's relatively high energy forecast, and the company's relatively high capacity contribution calculations.

As with PSE's and Avista Corporation's (Avista) PURPA tariff revisions,[2] and in the absence of better information and in recognition of a dramatically changing energy landscape in the region, staff does not dispute the reasonableness of Pacific Power's energy forecast. However, the capacity contribution calculations could benefit from further refinement.

Staff proposal to address issues arising from Pacific Power's capacity contribution calculations
The calculations in Pacific Power's 2017 IRP estimate the capacity value of a given resource to the utility's integrated six-state system. Fixed tilt solar has a capacity contribution of 53.9 percent, while tracking solar has a 64.8 percent capacity contribution.[3] The system's capacity need is driven by the company's summer peak. This, in turn, is driven by load in the eastern side of the company's system – west side solar is useful in meeting high east side load during hot summer evenings. But PURPA resources are situs assigned under the commission's adopted cost allocation methodology; QFs are resources located in Washington, serving load in Washington. Pacific Power's Washington service area peaks in the winter. Solar in Washington is not nearly as well-matched to meet this need. This is further illustrated by Avista's and PSE's much lower capacity contribution calculations for solar, both of which are two percent.[4]

Staff proposes an alternative approach with an aim to reconcile the methodology prescribed in rule with the resulting high avoided cost rates for solar, highlighted in the company's February 28 cover letter. The commission should reject this tariff and direct the company to refile Schedule QF and calculating avoided capacity costs for solar using the solar capacity contribution of two percent, as calculated by both PSE and Avista. Staff believes this value is a reasonable proxy for the capacity contribution of solar in Pacific Power's Washington service area serving Pacific Power's Washington customers. Staff recommends using the other utilities' calculations until a more precise estimate particular to Pacific Power's system and service territory can be produced in the company's 2021 IRP. In its order rejecting and requiring the company to refile, the commission should also order Pacific Power to include such a study in its next IRP. This recommendation requires a waiver of WAC 480-106-040(1)(b)(i) to permit and require the company to use the 2017S RFP for capital costs and the other utilities' capacity contribution calculations, rather than the capital cost estimates and the capacity contribution calculations in the 2017 IRP.

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[2] PSE's tariff revision implementing the new rules was filed under Docket UE-190665. Avista's similar filing is under Docket UE-190663.
[3] Docket UE-190666 Pacific Power & Light Company's Compliance Filing and Request for Waiver, filed February 28, 2020, page 5; citing the utility's 2017 IRP.
[4] Avista's capacity contribution calculations are found on Table 9.11 in the company's 2019 IRP, page 9-27. PSE's capacity contribution calculations are in the company's 2017 IRP, page N-67. The capacity contribution calculation for solar was originally one percent, but was updated to two percent in a later filing. *See* UE-180063.

If the commission does not find that PSE's and Avista's capacity contribution calculations are a reasonable temporary proxy, staff alternatively recommends that the commission direct the company to perform additional analysis to estimate Washington-specific capacity contributions for renewable resources. This renewable resource capacity contribution study would take time to perform, so staff's alternative recommendation includes adjusting the refiling date from April 3, 2020, to May 29, 2020. This approach would also require a waiver of WAC 480-106-040(1)(b)(i).

Additional time for review of standard Power Purchase Agreements (PPAs)
Though Pacific Power's form PPA was filed over half a year ago, staff understands that the company and interested stakeholders have not yet started negotiations over the PPA terms and conditions. At the September 12, 2019, open meeting, NIPPC/REC proposed addressing avoided costs and tariff language first, then negotiating and finalizing the PPA later. NIPPC/REC have included this request in most of their subsequent joint comments.[5] Staff agrees that more time, and a period of time dedicated solely to PPA issues, will lead to a more polished standard PPA.

Staff recommends that the commission order Pacific Power to file finalized standard PPAs as attachments to the tariff by May 29, 2020. This will allow time for discussion of terms, and for drafting a form PPA that can be flexible enough to handle almost all QF types – a concern raised by NIPPC/REC in their request for more and clearer contract options.[6] Staff is recommending similar treatment for PPAs attached to Avista Corporation's PURPA tariff.[7, 8]

Stakeholder comments

The January 23 memo contains a synopsis of stakeholder comments filed as of that date. Since then, no new comments have been filed to the docket. Staff does not know to what extent Pacific Power engaged with representatives from the NIPPC and REC to ensure consensus with the company's February 28 filing.

Conclusion

Staff recommends that the commission issue an order as described in the Recommendation section.

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[5] Docket UE-190666, Comments on behalf of NIPPC and REC, November 15, 2019, page 12; December 9, 2019, page 18; January 6, 2020, page 4.
[6] Docket UE-190666, Comments on behalf of NIPPC and REC, December 9, 2019, page 15.
[7] Docket UE-190663.
[8] Docket UE-190665; PSE's attachments to the company's small QF tariff, Schedule 91, went into effect on December 6, 2019. PSE and interested stakeholders were able to find agreement with PSE's PPAs, so staff had no reason to propose an alternative.