

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
LC 66**

In the Matter of

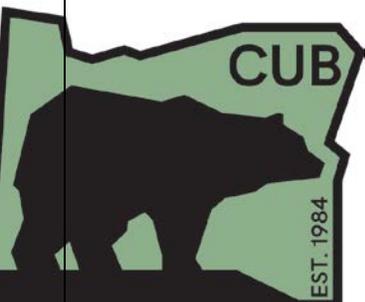
PORTLAND GENERAL ELECTRIC
COMPANY,

2016 Integrated Resource Plan.

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**COMMENTS OF THE
OREGON CITIZENS' UTILITY BOARD
ON PGE IRP UPDATE**

March 28, 2018



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I. INTRODUCTION

PGE’s IRP Update reflects a much different resource path than PGE originally proposed in its 2016 IRP. At that time, PGE was looking to add “375 to 550 MW of long-term annual dispatchable resources.”¹ PGE was conducting due diligence and seeking permits for two new gas plants, Carty 2 and Carty 3, and it was considering offering the Carty sites to potential bidders as a PGE ownership option.² In addition, PGE was considering investing in natural gas reserves as a way to acquire fuel for its gas plants.³

In PGE’s IRP Update, the 375 to 550 MW of long-term resources have been replaced by 300 MW of capacity contracts with 5 year terms (Bilateral Contracts).⁴

II. DISCUSSION

CUB applauds PGE for its change in resource path. CUB believes it is superior to its initial proposal last year for a number of reasons.

¹ LC 66 - Portland General Electric, 2016 Integrated Resource Plan, page 34.
² LC 66 - Portland General Electric, 2016 Integrated Resource Plan, page 346.
³ LC 66 - Portland General Electric, 2016 Integrated Resource Plan, Appendix Q.
⁴ LC 66 - PGE's 2016 IRP Update- March 2018 Page 8.

A. It Reduces Carbon Risk

Adding significant new natural gas generation with a useful life of at least 30 years also adds significant new financial risk associated with carbon. There will likely be new carbon regulations during the life of a new generation plant, which may add to the cost of those resources, or potentially reduce the useful life. The Speaker of the Oregon House of Representatives and the President of the Oregon Senate both have announced they will “convene and head up” a joint legislative committee focused on creating cap-and-invest legislation for 2019.⁵

Two-thirds of the new capacity contracts PGE signed were for hydro capacity, allowing PGE to obtain capacity without increasing carbon emissions. The other third will likely come from a mixture of renewables and natural gas generation.⁶ These Bilateral Contracts significantly reduce the financial risk to customers associated with future carbon regulation.

B. It Provides Flexibility Which Protects Customers from a Paradigm Shift

In comments addressing PGE’s original IRP, CUB raised the concern of the potential paradigm shift in the electric industry. CUB highlighted how utilities are good at modeling known risks, but they have difficulty modeling larger scenario risks, such as a paradigm shift. The electric industry is rapidly changing, due to new technology, climate change, and empowered customers, which all points to a different future from today. An IRP assuming steady load growth for 20 years, being met by large centralized utility investments, is based on the past and may not reflect the future. Significant changes in product efficiency, customer generation, and storage could fundamentally change PGE’s resource needs. Changes in market structure may change PGE’s role in meeting customers’ needs.

PGE’s IRP Update responds to this challenge by creating additional flexibility. First, PGE is pursuing shorter term bilateral contracts. These five year capacity contracts allow PGE to delay making

⁵ <https://www.bizjournals.com/portland/news/2018/03/03/oregon-cap-and-trade-backers-eye-2019-after-failed.html>

⁶ C 66 - PGE's 2016 IRP Update- March 2018 LC 66 - PGE's 2016 IRP Update- March 2018 Page 9.

long term resource commitments. In five years, more information about the changes to the electric industry will be known. Second, PGE's focus on Demand Response will help build a more flexible system for its customers. PGE's IRP Update discusses the Demand Response Review Committee⁷ and the demand response test bed.⁸ Developing a larger portfolio of demand response tools will allow PGE to meet load/resource balance by focusing both on the supply and the demand side. This has the potential to reduce costs and build a more resilient dynamic utility system.

C. It Creates a New Value for the Federal Hydro System

CUB believes the two new bilateral contracts PGE negotiated with the Bonneville Power Administration (BPA) are significant developments. These contracts create value to the federal hydro system, while simultaneously reducing costs and risks to PGE's customers. The Bilateral Contracts reflect not just a significant change in PGE's approach to procuring resources, but also a significant change in how BPA manages its hydro surplus, which is beneficial to both entities.

Historically, BPA has sold its surplus power, using the revenue to help reduce rates to its preference customers. However, due to the large volume of California solar energy and Northwest wind energy being sold in the market, market prices have fallen, and BPA's surplus power sales no longer produce the revenue historically produced. There is a need for BPA to find a better way to utilize the federal hydro system and to find products providing greater value than surplus energy sales. By focusing on capacity, instead of surplus energy, BPA gains an opportunity to sell a product with added value, which can be managed by the hydro system, and which is beyond the capabilities of solar and wind producers.

PGE needed to solve its capacity needs. On most days, PGE can find the energy it needs from its own generation or from market purchases. However, there are a limited number of hours when there is

⁷ We note that CUB has been asked to participate in this committee.

⁸ LC 66 - PGE's 2016 IRP Update- March 2018 LC 66 - PGE's 2016 IRP Update- March 2018 Page 6-8.

not enough sun and wind, and PGE needs an additional back-up resource. This led PGE to look to a long term gas plant, which could provide the needed capacity. However, long term gas plants require significant capital investment and lock customers into a 30-year commitment.

The solution for both PGE and BPA are contained in these Bilateral Hydro Contracts, and CUB believes these contracts represent a significant new development in the region.

III. CONCLUSION

CUB appreciated PGE's IRP Update and the changes made in PGE's resource plan, since the original IRP filing was made. PGE listened to its stakeholders during the IRP review, responded to concerns, and it has come back with a portfolio which offers greater flexibility and lower risk. While PGE's pivot away from new gas plants and towards Bilateral Contracts was apparent last year, the negotiations were confidential, so it was not clear whether they would be successful. CUB applauds PGE for listening to stakeholders, being willing to take its resource portfolio in a new direction, and successfully executing that strategy.

Signed this 28th of March, 2018.



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