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**BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON**

**In the Matter of** )  
**PORTLAND GENERAL ELECTRIC** ) LC 48  
**COMPANY 2009 Integrated Resource Plan** ) Opening Comments of the Northwest and  
 ) Intermountain Power Producers Coalition  
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Pursuant to the procedural order issued in this docket on December 3, 2009, the Northwest and Intermountain Power Producers Coalition (NIPPC, the Coalition) hereby submits these comments to the Oregon Public Utility Commission (Commission) on Portland General Electric’s (PGE’s) 2009 Integrated Resource Plan (IRP).

**INTRODUCTION**

NIPPC submits these comments with a sense of déjà vu. PGE’s assertions are reminiscent of claims it and other utilities have made before this Commission on many prior occasions. NIPPC will demonstrate with our comments that there is less justification for the utility arguments than there ever was.

The Commission has long recognized investor owned utilities’ bias toward self-built and owned generation resources. The bias is partially a function of utilities’ obligation to bring value to its shareholders even as the Commission seeks to balance that objective with the ratepayers’ interests for enjoying the lowest cost power. *See* Oregon Administrative Rule § 860-038-0080(1)(b) (requiring “least cost” planning processes).

PGE with its draft IRP has highlighted its preference and offered ample – if ill founded – justifications for exercising its ultimate monopsony power, i.e., not to purchase power at all.

NIPPC has never suggested and does not suggest here, the obverse, i.e., that utilities should *only* procure from the market. Rather the Coalition’s position is that the consumers’ interest requires that Oregon utilities offer a sufficient, credible and fair opportunity for independent power producers (IPPs) to offer competitively procured and market tested power to these same utilities.

In spite of the considerable merit of integrated resource planning, the future is unknowable. Regrettably, even a cursory reading of PGE’s draft IRP reveals that it is extremely limited in planning how to secure new generation resources. In denigrating the option of securing Power Purchase Agreements, it is preparing the ground for a single scenario – self-supply. And a fundamental principle of coherent planning is that single scenarios are inherently doomed to failure.

NIPPC’s comments on PGE’s IRP are limited to specific, but extremely important, elements of PGE’s IRP, as summarized below:

**1. PGE’s analysis of “The Advantages and Disadvantages of Ownership vs. PPAs”**  
(Section 9.4, IRP pages 207-209).

PGE’s analysis grossly overstates the advantages of PGE’s ownership of generation resources and glosses over or completely overlooks the potential advantages of purchasing supplies from third parties under Power Purchase Agreements (PPAs). PGE’s analysis pre-judges what may be available in the marketplace and presumes that PGE ownership offers advantages over PPAs and is preferable in all or most instances. PGE’s analysis simply identifies some project characteristics that *might*, in isolation and only in certain circumstances, provide cost or risk advantages for resource ownership, without any demonstration that these elements will or could result in lower costs or risks *overall* for those owned resources. PGE’s analysis, as presented, is flawed and in no way “provides a basis for evaluation and scoring in any subsequent RFP” as required in Guideline 13 of the Commission’s IRP Guidelines.<sup>1</sup>

NIPPC’s comments below refute PGE’s specific claims, and demonstrate that PPAs offer many advantages to ownership, in particular, (i) opportunities for increased portfolio diversity in terms of diversity across supplier capabilities and experience and diversity of duration and timing of resource commitments, in addition to diversity across resource types and technologies, and (ii) the ability of PPAs to transfer resource procurement risks away from PGE and its customers to third party suppliers.

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<sup>1</sup> The Commission stated it believed “that the pros and cons [of owning a resource instead of purchasing power] should be evaluated from the perspective of the utility and its customers and that this assessment should be rigorous enough to provide a basis for evaluation and scoring criteria in any subsequent RFP.” *In the Matter of Public Utility Commission of Oregon: Investigation into Integrated Resource Planning*, Docket No. UM 1056, Order No. 07-002, p. 24 (January 8, 2007).

In previous proceedings, the Commission has recognized that there is a utility bias in favor of owning its own resources.<sup>2</sup> As a result, the Commission should not be surprised that PGE's assessment in the IRP is one-sided, selecting isolated elements that might tend to favor ownership. NIPPC's concern here is that absent careful scrutiny and correction, PGE's bias will likely continue, and could easily result in one-sided competitive procurements, requests for proposals (RFPs) and evaluation of bids, resulting in increased costs and risks for PGE's customers.

**2. PGE's "policy and support" recommendations regarding (i) claimed costs and risks related to PPA imputed debt and (ii) recovery of development costs for PGE-owned resources.** (Section 13.5, IRP pages 329-330)

PGE makes recommendations regarding "state energy policies or support" that PGE claims "will ultimately help achieve state energy policy objectives while keeping costs to customers reasonable." IRP at p. 329-30. Three of these recommendations are proposals that provide PGE resource ownership options with an unfair advantage over third-party alternatives: (i) mechanisms to account for PGE's claimed costs and risks associated with imputed debt that might be assigned to PPAs by one or more rating agencies, (ii) recovery of costs for PGE's acquisition of "good wind sites" in advance of project development, and (iii) recovery of PGE's of development costs incurred for its unsuccessful benchmark bids.

If adopted, these recommendations will stifle competition, expose PGE's customers to incremental risks, and will increase costs for customers.

## DISCUSSION

### A. PGE's Analysis of the Advantages and Disadvantages of Ownership vs. PPAs

In its IRP, PGE provides an assessment entitled "The Advantages and Disadvantages of Ownership vs. PPAs." IRP at pp. 207-09. NIPPC generally agrees with PGE's rhetorical concluding paragraph:

The selection of a PPA resource or a utility owned resource remains situational, depending upon a number of factors including the particular characteristics of the project, the ability to raise financing, as well as the profile and circumstances of the seller and utility at the time of selection. Accordingly, a comprehensive and

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<sup>2</sup> See, e.g., *In the Matter of an Investigation into Regulatory Policies Affecting New Resource Development*, Docket No. 1066, Order No. 05-133, p. 2 (March 17, 2005) (stating, "we intend to open an additional investigation docket later this year to consider the use of performance-based ratemaking to offset utility bias in favor of owning its own resources"); see also Docket No. UM-1276, "An Investigation Regarding Performance-based Ratemaking Mechanisms to Address Potential Build-vs.-buy Bias."

case by case approach should be used to assess the differential risk of utility owned vs. contracted resources.

IRP at p. 209.

The Coalition has significant concerns, however, with PGE's underlying analysis, as described further below. NIPPC's concern is that if PGE's analysis and its strategic omissions are accepted as part of PGE's IRP, these flaws could flow through unchecked to PGE's subsequent RFPs for new resources and potentially be used as a basis for evaluation and scoring of offers received, resulting in resource selection that is unfairly biased towards utility-owned alternatives. Given the evident bias towards utility ownership in PGE's analysis, NIPPC is skeptical that PGE can follow its own recommendation that a "comprehensive and case-by-case approach should be used to assess the differential risk of utility owned vs. contracted resources."

**1. PGE ignores the benefits of supply portfolio diversification offered by PPAs.**

First, PGE completely ignores the benefits offered by PPAs to better diversify PGE's supply portfolio as a whole, across suppliers, timing, and duration of resource commitments. PPAs can improve diversification (reducing risk) of PGE's overall supply portfolio, providing utilities and the customers they serve with not just a variety of types of resources, terms and pricing options, but also diversity in types and terms of resource ownership. PPAs also provide utilities and customers with resource flexibility and options that strengthen resource planning and acquisition. PPAs help maintain a viable non-utility wholesale market because they financially support non-utility resources and tend to secure them to this region during their contract terms.

In short, a healthy utility resource portfolio is one that displays a significant level of diversity; important components of diversity come from PPAs in terms of varying contract terms, resource delivery timing, and facility ownership, which in turn spreads resource risks across suppliers and can bring qualifications, experience, resources and track record that would otherwise be missing from a portfolio consisting only of PGE-owned resources.

These portfolio diversification benefits and the ability to use PPAs to include a mix of commitments for future supplies is particularly important in light of today's procurement risks, which have heightened due to increasing reliance on new technologies and uncertainties regarding future environmental constraints and regulations. Perhaps more than ever, what appears to be the best option today may not prove to be so in ten, twenty or thirty years. Certainly some technologies, equipment designs and supplier strategies will exceed expectations while others will not. Here, diversification, particularly when sought out in a robust competitive market, will reduce risks for PGE's customers over the long run.

Further, PGE ignores the significant benefits that flow through to customers as the result of a robust competitive market for power supplies, including offering the widest range of resource alternatives available, cost savings for customers due to competitive market pressures, and a market-based mechanism that can offer a contrast or "check" on utility spending.

**2. PGE’s claims of ownership advantages due to “synergies with existing resources” can only be proven out by evaluating the all-in risks and costs of an owned resource against third-party alternatives.**

PGE claims an advantage of resource ownership due to opportunities to access existing project sites and infrastructure. IRP at p. 207. This advantage is extremely case-specific and, more importantly, isolates one element of project cost without consideration of the total cost and risk profile of the given resource. Even if a new owned resource were to benefit from reduced site costs, (i) there are no “synergies” unless this cost savings somehow also increases the value or reduces costs of other project elements (making the sum of the parts greater than the whole), (ii) that cost element is only one of many project characteristics, and is not directly correlated to the total cost of the resource relative to PPA options, as third-party suppliers may be able to provide efficiencies and cost savings in other cost categories that are greater than the siting “advantage,” and (iii) third-party suppliers may have similar opportunities to build at their own existing sites, generating the same “advantage” for PPA options. Further, as described in further detail below, third-party suppliers are able to take on project risks that are typically borne by PGE and its customers for PGE-owned resources, and the reduction in risk profile could offset the utility’s siting cost “advantage.”

To cite one example, as PGE suggests, expanding a facility at an existing site may not require the construction of new service roads. However, other project costs, such as transmission line upgrades, fuel transport upgrades, and environmental constraints and mitigation requirements, may easily exceed the cost of roads at an alternative site that is better positioned in terms of access to transmission and fuel supplies and environmental impacts. Should that site also have the necessary roads, either because a third-party supplier already has a facility on that site or simply because the roads exist for other reasons, the utility has no inherent advantage.

**3. PGE’s analysis ignores the fact that PGE and its customers are facing significant risks related to aggressive capital spending plans and that PPA options will reduce this risk exposure.**

PGE claims that, as a result of recent capital market conditions and relatively low debt to total capital ratios for utilities, “utilities may be better positioned to raise capital to develop and construct a project in the near-to-mid term,” providing “increased certainty that once a good resource is identified the development will go forward to completion.” IRP at p. 207.

While utilities in general may not have borne the brunt of the recent turmoil in the capital markets, large capital spending programs present significant risks for utilities generally, and for PGE in particular. These risks are recognized by the rating agencies. For example, for PGE, Standard and Poor’s (S&P) reported in August 2009:

PGE’s negative outlook reflects the strain that the company’s capital program has placed on the financial risk profile in the current economic environment. Absent an improvement in the company’s financial profile and liquidity needs, ratings could be lowered in the next 12 months.

S&P, Portland General Electric Co., Summary Report, p. 2  
(August 26, 2009).<sup>3</sup>

Moreover, were PGE to invest in and own the Benchmark Resources identified in its IRP, levels of capital spending and associated risks would increase significantly, further pressuring PGE's own balance sheet. PGE may not be able to raise the capital required at a reasonable cost and may be challenged to manage multiple construction projects of that size and scope successfully.

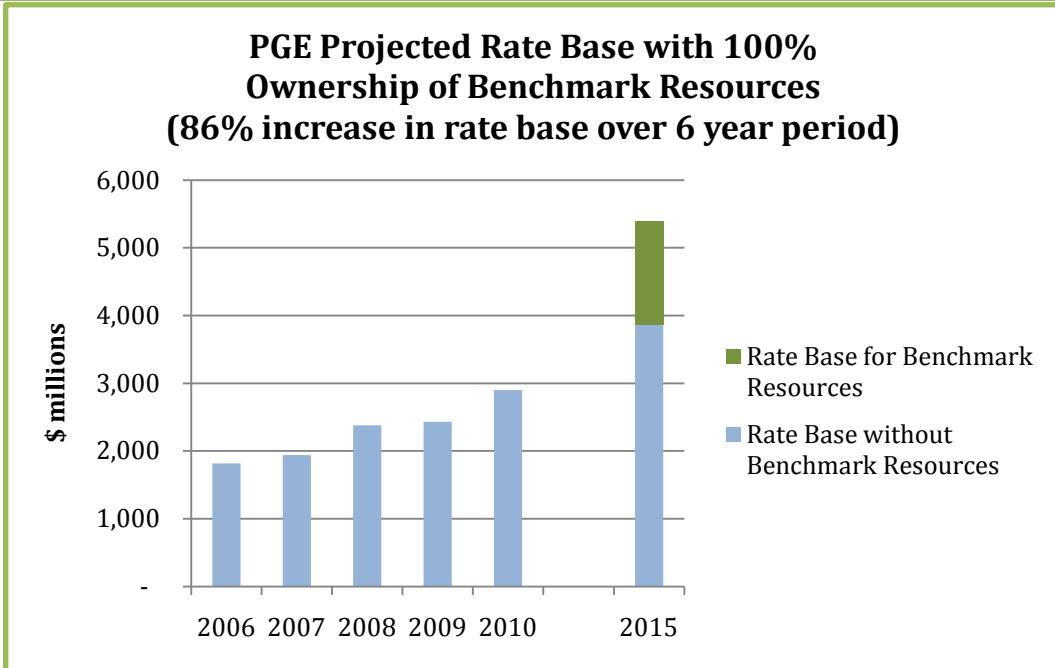
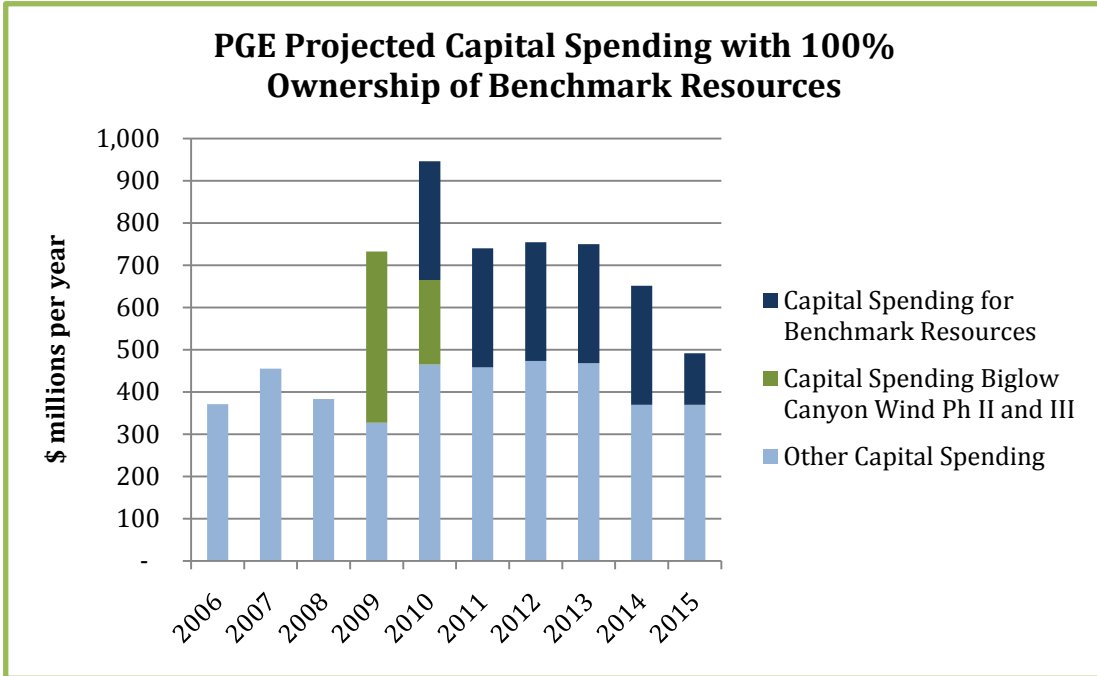
The charts below show projected annual capital spending requirements for PGE and projected total rate base assuming PGE takes on ownership of the Benchmark Resources it has identified in the IRP.<sup>4</sup> Based on PGE's IRP, development, construction and ownership of PGE's Benchmark Resources could easily require capital expenditures of \$1.5 billion,<sup>5</sup> on top of significant capital spending requirements already planned for other parts of the utility (e.g., ongoing replacements, smart metering, Boardman upgrades, hydro facility upgrades, and the Cascade Crossing transmission line).

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<sup>3</sup> S&P cited similar concerns regarding PGE's capital spending program in its full report dated February 4, 2009.

<sup>4</sup> Based on PGE 10Q report 3<sup>rd</sup> quarter 2009 and PGE presentation, EEI Conference, November 2009 (available on PGE website), and Benchmark Resource descriptions and resource cost estimates in PGE IRP. Figures are actuals through 2008 and projections thereafter, and assume PGE's share of Cascade Crossing is 100%. Individual project costs are spread evenly from 2010 through each project's projected in-service date.

<sup>5</sup> Using PGE's Benchmark Resource descriptions in the IRP at pages 203-206 and cost assumptions in the IRP at page 154: 200 MW simple cycle gas turbine, \$1,091/kW; 400 MW combined cycle combustion turbine, \$1,284/kW; 350 MW wind farm, \$2,283/kW = \$1.53 billion. Note that capital cost estimates are overnight costs in 2009 dollars.



Under this scenario, PGE’s annual capital spending from 2009-2015 would be nearly double what it was from 2006-2008, and would result in nearly a 90% increase in PGE’s rate base over a six-year period. Even without any ownership of the generation resources in PGE’s IRP, PGE’s rate base is likely to increase by about 30% over the six-year period, with capital expenditures at or above recent levels.

Notably, while PGE ignores the extent of its capital needs and the associated risks in its IRP, it highlighted the risks of its aggressive capital spending plans in its 2009 General Rate Case (GRC), arguing for a higher cost of capital (and higher rates) to compensate for those risks.

For example, in its Cost of Capital direct testimony in the 2009 GRC, in response to the question, “What other types of risks does PGE encounter today?” PGE in fact highlighted construction spending as a risk:

Large capital program over the next three years: PGE has begun a large capital expenditure program that will continue for at least the next five years. As discussed in Section I above, access to the capital markets is critical to fund these expenditures. In the financial markets, PGE has the risk of higher than expected cost or lack of market liquidity to fund the capital program. A strong balance sheet with a higher return on equity reflective of this risk is necessary to remain a marketable company in these volatile financial markets.

Portland General Electric’s Exhibit 900, p. 11, Docket No. UE-197 (February 27, 2008).

In its Return on Equity direct testimony, PGE’s witness also highlighted risks of large capital spending programs:

Expected or unexpected requirements for additional capital spending means the utilities have to request rate increases more often and for larger percentage changes in order to maintain fair rates of return. Regulatory procedures are expensive, time consuming, increase uncertainty, and raise doubts in investors’ minds that it is politically possible to request the required increases or that regulators will authorize high enough prices and/or price adjustment mechanisms to enable the utilities to earn fair rates of return. Investors may be concerned that regulators may delay the inclusion of new plant in rate base or part of the dollars invested or operating costs will not be authorized to be recovered. From an investor’s point of view, it is the potential for such disallowances, delays or exclusion from consideration in setting new rates that increases risk....With the need for increased investments, uncertainty arises and the risk increases.

Portland General Electric’s Exhibit 1000, pp. 11-12, Docket No. UE-197 (February 27, 2008).

**4. PGE’s claims regarding incremental costs associated with PPA “imputed debt” are flawed.**

Regarding costs associated with imputed debt, PGE offers a one-sided and incomplete analysis to conclude that “PPAs will solely add to the liability side of PGE’s Balance Sheet without any of the benefits of ownership, thus artificially raising PGE’s cost of debt,” and that



these claimed costs “further tip the scale in favor of ownership to the detriment of PPAs.” IRP at p. 208.

PGE’s argument that PPA imputed debt tips the scale in favor of utility ownership focuses solely on “imputed debt” that *might* be assigned by rating agencies to PGE’s PPAs as part of their credit rating process, and from there erroneously concludes that PPAs will increase PGE’s cost of capital.

This analysis is flawed in two important respects. First, the assessment is limited to one narrow element of PPA risk overall as it might be measured by one or some but not necessarily all major rating agencies<sup>6</sup> to adjust credit ratios. From there, PGE incorrectly argues that those ratios are the sole determinants of bond and credit ratings, and from there further incorrectly argues that bond and credit ratings are the sole determinant of PGE’s cost of capital.

Second, while in certain limited circumstances a rating agencies *might* assign imputed debt to PPAs to assess financial risk, they also recognize that PPAs typically *reduce* a utility’s business risk, particularly its power supply procurement risks. A PPA is simply not imputed debt alone -- the PPA fills a need in the utility’s supply portfolio, with specific performance, delivery and reliability requirements attached to it.

The risk-reducing benefits of PPAs compared to utility ownership are recognized by the rating agencies. For example, in a 2007 presentation, Standard and Poor’s (S&P) presented the following lists to show “The risks and rewards of PPAs vs. Self-Build:”

Benefits of PPAs [to utility bond holders]:

- Construction risk is borne by the supplier
- Operating risk is typically shifted to the supplier if certain threshold availability and/or heat rate targets are not met
- Recovery of costs may be simplified through the use of a power cost adjustment mechanism
- Avoid taking a long view of the market
- Asset diversity
- Temper exposure to technology risk

Risks of PPAs [to utility bond holders]:

- Forego rate base treatment and the opportunity to earn a return
- Debt imputation is viewed as increasing operating leverage for analytical purposes, which can erode the financial metrics used to measure creditworthiness
- Potential need to provide collateral to the supplies.

*Standard and Poor’s Imputed Debt Calculations for Power Purchase Agreements*, Society of Utility and Regulatory Financial Analysts meeting, Washington, D.C. (April

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<sup>6</sup> For several utilities with PPA cost recovery mechanisms similar to PGE’s, S&P assigns some imputed debt while Moody’s and Fitch assign no imputed debt to the same PPA portfolio.

19, 2007).

Although, in some cases, S&P may assign imputed debt to PPAs as a measure of financial risk, S&P's overall assessment of PPA risk goes beyond its estimates of imputed debt and also considers positive impacts of PPAs on a utility's business risk profile.

In large part, PGE is simply repeating old arguments that have already been rejected by this Commission. The Commission heard arguments on both sides of the imputed debt issue in the process of adopting the Competitive Bidding Guidelines, and largely rejected utilities' claims. In that proceeding, the Commission concluded that claims of costs associated with PPA imputed debt cannot be used in bid evaluation until the final short list has been chosen. Further, if imputed debt cost adders are applied, the Commission can then require a utility to further substantiate its imputed debt costs with an advisory opinion from a ratings agency.<sup>7</sup>

In a similar vein, PGE claims that its costs of margin requirements will increase with PPAs. Again, this is an isolated cost that may or may not materialize, depending on (i) whether PGE is willing to provide this type of credit support to its suppliers in future PPAs, and (ii) the extent to which future market prices are in fact lower than the PPA price over the term of the PPA. Further, PGE does not consider the PPA advantage of protections that are offered to PGE and its customers in the event that the IPP offers parallel support for scenarios where market prices are higher than the PPA price.

**5. PGE's claims regarding "long term access to resources" offered through resource ownership ignores the risk that owned assets will not prove to be cost effective over the long term relative to new resources and/or PPA contract renewals.**

PGE argues that utility ownership offers "long term access to resources" and benefits customers by capturing the value of the resource and its location over its life, as compared to the typically more limited term of a PPA contract. This argument is one-sided, and assumes that all owned resources will continue to offer value to customers for a period longer than the term of the PPA alternative. What PGE ignores is the flip-side risk for utility-owned projects: it could also be that market prices may fall, resource operating costs may escalate, or that technological, environmental or other factors may make a utility-owned resource obsolete or more expensive, with PGE and its ratepayers responsible for any unrecovered costs.

In a particularly appropriate example, PGE has contracted through a PPA with the Centralia Power Station, a coal-fired rough contemporary of Boardman. It is obvious that the level of risk associated with the five year PPA PGE signed with TransAlta, an independent

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<sup>7</sup> See *In the Matter of Investigation Regarding Competitive Bidding*, Docket No. UM 1182, Order No. 06-446, Appendix A, p. 3 (August 10, 2006) (setting forth Competitive Bidding Guideline 9(c), which states: "Consideration of ratings agency debt imputation should be reserved for the selection of the final bids from the initial short-list of bids. The Commission may require the utility to obtain an advisory opinion from a ratings agency to substantiate the utility's analysis and final decision.")

power producer, for its coal-fired generation comes with far less risk than power secured from the utility's own power plant.

**6. PGE's mitigation strategies for the disadvantages of utility ownership are strategies that PGE might be able to undertake, but are by no means strategies that PGE will be able to implement successfully. Absent successful mitigation, these risks are borne by PGE's customers.**

PGE does cite a few disadvantages to utility ownership, such as the risk of costs in excess of market alternatives, poor project performance, and unknown reclamation liabilities at the end of a project's life. PGE goes on to describe several strategies to mitigate these risks, for example, equipment selection and siting, a well-developed and managed engineering, procurement and construction plan, and plant operator experience and knowledge. However, successful implementation of these strategies to mitigate these and other ownership risks is dependent on the experience, qualifications, management skills, resources and capabilities of the resource owner, and is by no means assured.

For example, the relative long-term value of a wind resource owned by PGE and included in rate base will vary considerably depending on how much electricity the facility actually generates (the facility's capacity factor). The capacity factor of a wind project is a function of wind speed and frequency, turbine availability and reliability, and other factors. For a given utility-owned facility with capital costs included in rate base, higher capacity factors will increase the value of the facility for customers, lower capacity factors will reduce the value. In contrast, most wind PPAs are structured such that PGE's customers pay only for electricity that is actually delivered—thereby significantly reducing the downside production risks that would be otherwise assumed (through a utility owned wind farm) by PGE's customers.

PGE counters that it can manage these risks for its customers with careful site selection and by securing appropriate turbine warranties and guarantees from turbine manufacturers. Predicting wind speeds accurately has proven to be difficult, and small errors can result in large variations in output. Customers are exposed if initial projections are overly optimistic.<sup>8</sup>

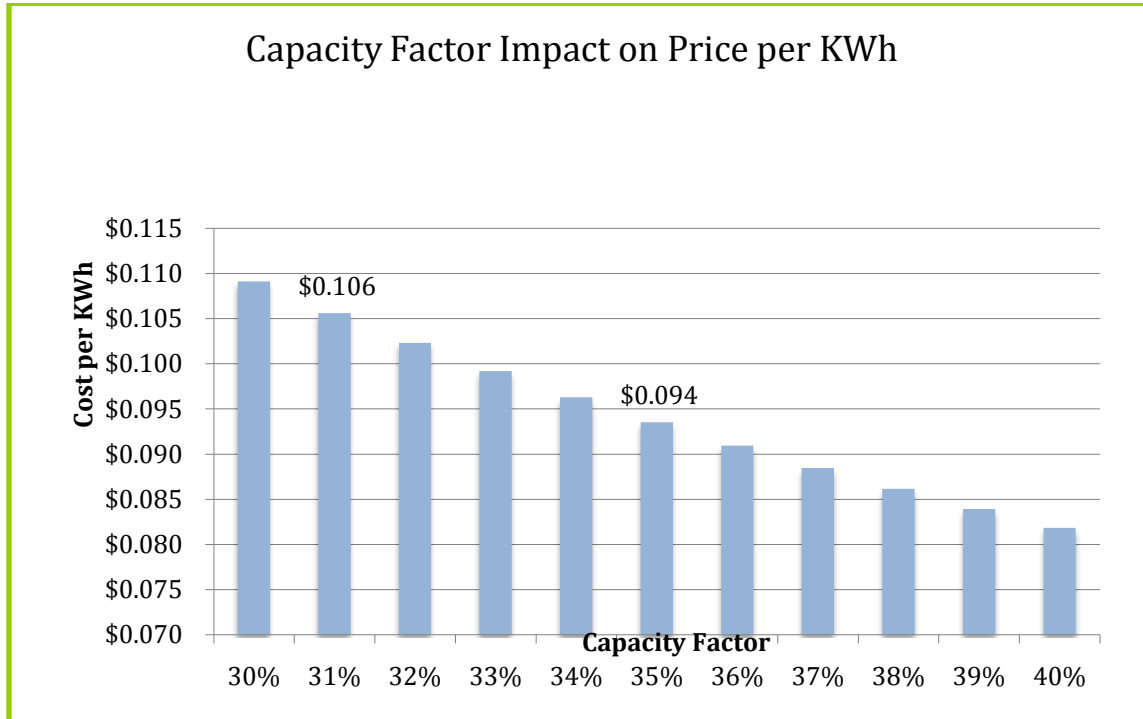
The following chart shows an example of the degree that the cost of energy rises as a consequence of declining capacity factors.<sup>9</sup> The geometric function of wind speeds means that “small” assessment errors translate into much larger costs; costs if the afflicted wind farm is utility-owned that will impact ratepayers. In fact, in this example, each percent loss of capacity factor leads to an additional 0.27¢ increase per KWh required to cover debt, achieve required

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<sup>8</sup> In LC 33, where PGE sought a waiver of OAR 860-038-0080(1)(b) to build Biglow Canyon, NIPPC argued that “PGE may not be able to construct and operate a wind power project at costs that can be achieved by experienced wind power developers.” *Comments of Northwest Independent Power Producers*, Docket No. LC 33 (May 22, 2006).

<sup>9</sup> The Energy Group, “Capacity Factor Impact on Wind Power Financials,” February 27, 2009 as posted on: <http://nippc.org/upload/Wind%20Capacity%20Factor%20Pres.pdf>.

return on equity, and recover operational costs. For a projected capacity factor of 31%, costs per kWh increase by 1.2 ¢/kWh, or nearly 13%.

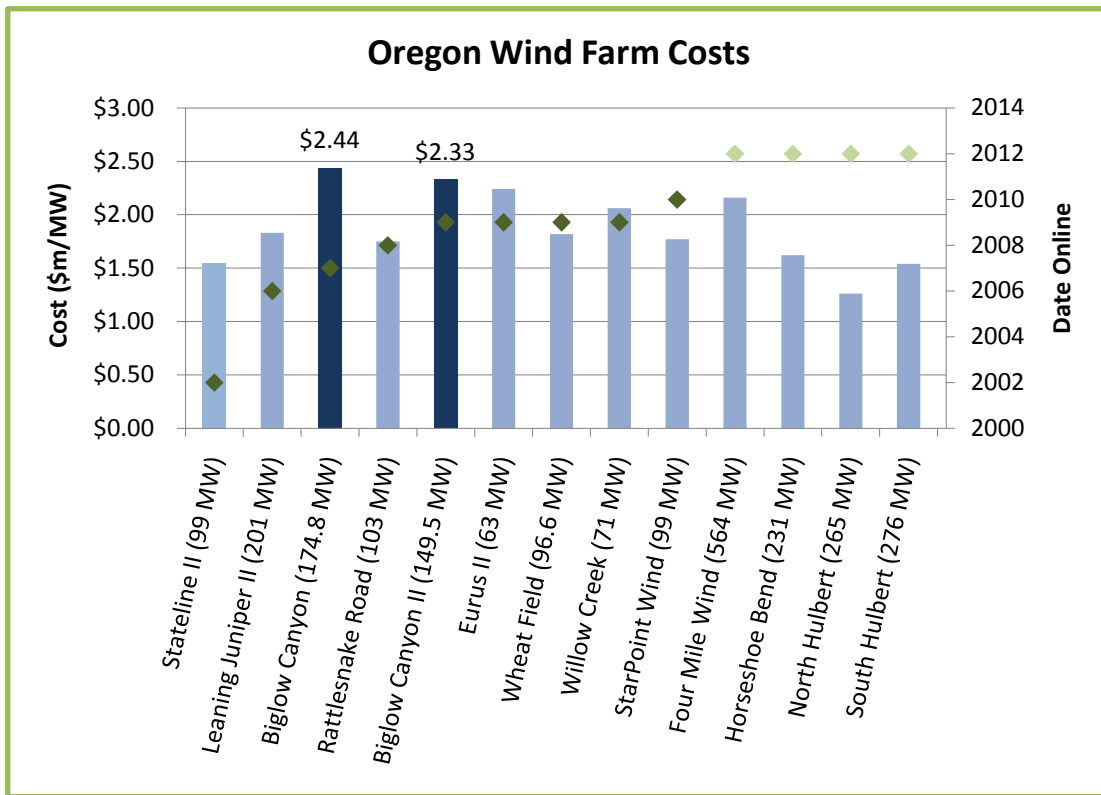


Regarding equipment performance risks, while manufacturers will provide warranties, they are generally for terms much shorter than the expected life of the facility, and their terms may in fact tend to correlate with expected failure rates, leaving customers exposed for those failures that occur after warranties have expired.<sup>10</sup>

Finally, recent experience indicates that PGE is not necessarily equipped to manage and limit project costs as well as its competitors across all technologies. The capital costs of PGE’s Biglow Canyon Project does not compare favorably with the capital costs of other wind projects in the region. The chart below, using data from the Oregon Department of Energy and the Renewable Northwest Project, compares capital costs across several wind projects; Biglow Canyon Phases I and II rank highest based on capital costs in \$/MW. Based on cost estimates in PGE’s 10Q report for the third quarter of 2009, Biglow Canyon Phase III will come in at a similar cost (about \$2.4 million per MW), also exceeding the cost of the non-utility-owned facilities in the sample.<sup>11</sup>

<sup>10</sup> Deutsches Windenergie Institut Nr. SO-199 15/10/02. 02, as posted on: [http://www.dewi.de/dewi/fileadmin/pdf/publications/Studies/Wind-Energy/WindEnergyStudie\\_2002.pdf](http://www.dewi.de/dewi/fileadmin/pdf/publications/Studies/Wind-Energy/WindEnergyStudie_2002.pdf) .

<sup>11</sup> PGE 10Q report, September 30, 2009, p. 53, reports that Biglow Canyon Phase III has an installed capacity of 175 MW and an estimated total cost of \$426 million.



PGE’s ability to mitigate the risks and manage the costs of resource ownership across all technologies and fuel types, and across multiple projects of significant size, scope and complexity, depends on PGE’s capabilities to successfully develop, construct and operate all of the projects that it undertakes. Moreover, PGE ignores the fact that under a utility ownership structure, the utility and its customers bear all project risks and costs, regardless of whether the utility is able to manage those risks and costs. Under a PPA structure, project risks can be shifted to a third party; customers are not dependent on their utility to successfully mitigate and manage those risks.

## 7. Summary

PGE’s analysis of the advantages and disadvantages of ownership vs. PPAs includes several individual elements considered in isolation, resulting in a bias in favor of PGE ownership. PGE’s analysis selectively identifies a few discrete characteristics of owned resources that, on their own, might, in some cases, reduce certain categories of costs or risks for PGE’s customers. PGE’s claimed advantages for owning generation resources, rather than purchasing from third party suppliers, does not consider the full range of differences between utility ownership and PPAs.

Moreover, PGE completely ignores the benefits offered by PPAs to better diversify PGE’s supply portfolio as a whole, across suppliers, timing, and duration of resource commitments. Similarly, PGE ignores the primary benefits of robust competitive markets

generally, to seek out those suppliers that are best qualified to develop, construct, own and operate generation facilities, as well as the best contracting and ownership structures. Across the numerous alternatives available in a robust competitive market, the party with the best track record, qualifications, resources and expertise for a given technology, together with its willingness to take on project risks, may not be the utility.

PGE's assessment seems to be driven by a pre-conceived preference for ownership, much as choosing between owning one car or leasing another based on color differences alone and without consideration of any other differences in terms of other critical characteristics, such as size, performance, reliability, maintenance requirements, technology and efficiency, and manufacturer qualifications, track record and experience with the technology. PGE's assessment demonstrates a propensity to portray PPAs in a negative fashion, failing to acknowledge the risk-reducing qualities that PPAs typically offer to utilities and, more importantly, to ratepayers.

Whether PGE invests in and owns generation, or obtains energy supplies from third party suppliers under long term PPAs, PGE faces risks on how it will procure sufficient energy supplies at reasonable costs for its customers. Utility-owned options present several power supply procurement risks that can be transferred away from a utility and its ratepayers with PPAs. Utility-owned options typically add incremental development, financing, construction, and/or operating risks for the utility and its ratepayers. In contrast, PPAs typically transfer these risks to a third party supplier that is qualified and able to manage these risks.

A side-by-side comparison of these risk profile differences is shown in the table below. Meeting resource requirements with PPAs, rather than through utility ownership of those resources, will result in lower capital spending requirements for PGE and will reduce PGE's development, construction and operating risks.

Risk for Utility Bondholders/Ratepayers	PPA Options	Utility-Owned Options	Highest risk exposure
Development risks		✓	Utility
Construction risks		✓	Utility
Operating risks		✓	Utility
Technology risks		✓	Utility
Supplier concentration risks		✓	Utility
Capital market risks		✓	Utility
Commodity price risks	✓	✓	Generally equal for the same fuel type/technology
PPA financial risk as measured by imputed debt	✓ <i>BUT minimized with regulatory assurances regarding cost recovery</i>		PPA
<b>OVERALL</b>	✓ ✓	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓	<b>Utility</b>

Ultimately, NIPPC believes that the best way to identify and evaluate the relative advantages and disadvantages of ownership and PPA options is to conduct an open, fair and non-discriminatory competitive procurement process for the resource need identified in PGE’s IRP. Such a process, if properly designed, will (i) seek out the best alternatives available, regardless of ownership, and (ii) ensure that the options available will be evaluated fairly, on the basis of both cost and risk exposure.

The Oregon Independent Evaluator, Boston Pacific Company, has also repeatedly noted that PPA options reduce risks for a utility and its customers compared to utility ownership, and that bid evaluation must incorporate these differences in risk exposure for customers. For example, regarding PacifiCorp’s 2008R-1 RFP, Boston Pacific stated:

Any bid evaluation method must assess the ways in which each bid allocates risk. One flaw in PacifiCorp’s current evaluation process is that it does not recognize the risks inherent in each transaction type. The general risk profile of each transaction can be laid out as follows:

- PPAs: Most risks are shifted to the seller, including capital cost risk (i.e. the risk of cost overruns) and operating cost risk.
- Build Own Transfers and Sales of Existing Assets: These shift capital cost risk from ratepayers to the seller (or do away with it all together). But, since PacifiCorp will operate the assets on a cost-of-service basis, these agreements shift most of the risk for operating cost overruns to ratepayers.
- Benchmark Bids: As discussed above, Benchmark Bids shift the most risks to ratepayers. Both capital cost risk and operating cost risk are assigned to

ratepayers.

In order to properly evaluate bids, some measure of these risks must be accounted for in the bid evaluation.

OIE report on PacifiCorp's 2008R-1 RFP Design, July 3, 2008, p. 12.

However, particularly in light of the biased presentation in PGE's IRP, NIPPC is skeptical that PGE will in fact develop and implement an unbiased competitive procurement process that will properly evaluate PPA options alongside utility-owned alternatives. NIPPC recommends that the Commission reject PGE's claims in its IRP that identify only isolated and project-specific characteristics that might, in some cases, favor utility ownership over the purchase of supplies under long-term contracts with third-party suppliers. Further, NIPPC recommends that the Commission be mindful of PGE's bias towards ownership when it reviews PGE's future RFPs and bid evaluation criteria.

#### **B. PGE's "Policy and Support" Proposals that Further Favor Utility Ownership at the Expense of PGE's Customers**

In Section 13 of its IRP, PGE lists several "Regulatory Policy and Support" actions that it claims will "help achieve state energy policy objectives while keeping costs to customers reasonable." IRP at p. 329. In fact, these actions will only further PGE's inherent bias against long-term purchases, stifle the competitive market for new generation resources in Oregon, and increase costs for PGE's customers.

First, PGE again makes broad statements that PPAs will reduce PGE's financial flexibility and increase borrowing costs, primarily due to imputed debt that might be assigned to PGE's PPAs by rating agencies. As explained above, here again, PGE singles out one *potential but unsubstantiated* cost associated with PPAs, without consideration of the *all-in* costs and risk exposure of PPAs and their fit within PGE's resource portfolio, and concludes that some sort of fix or compensation is required.

Amazingly, here PGE references its efforts in the UM 1276 docket where it, according to PGE, "advocated for a structure that recognizes and addresses the risk and potential cost associated with PPAs." IRP at p. 329. In fact, that proceeding was opened to develop fixes to "offset utility bias in favor of owning its own resources" with the objective to develop an incentive mechanism to encourage utilities to take advantage of the *risk reductions* offered by PPAs. See OPUC Order No. 05-133. The proposal supported by PGE in that proceeding essentially allows PGE to earn a return in exchange for entering into PPAs and reducing its customers' risk exposure. NIPPC's concerns with PGE's proposal will not be repeated here. Suffice it to say that while NIPPC agrees that it may be appropriate for utilities to receive some financial reward for entering into PPAs, (i) imputed debt assigned to PPAs overstates PPA impacts on cost of capital and is therefore not an appropriate basis for an incentive,<sup>12</sup> (ii) PGE's

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<sup>12</sup> Note also that to the extent that PGE's PPA portfolio has any impact on its cost of capital, positive or negative, that impact will be accounted for in PGE's general rate cases, where cost of



proposal further unfairly penalizes PPAs by including its excessive “incentive” in its evaluation of PPA bids.<sup>13</sup>

Second, while short on specifics, PGE makes two references to requests for Commission approval of cost recovery for PGE’s project development costs prior to the time that the projects being developed are placed in service. PGE’s first suggestion appears to be that “due to the limited supply of good wind sites” its costs for acquisition of potential sites be approved for recovery (at customer expense) well before facilities on the sites are even permitted or constructed (much less operational). While PGE is vague on the details, it states that “acquisition of some [wind] sites in advance of project development . . . may require a change to O.R.S. § 757.355, which exempt customers from paying for an asset that is not yet in service.” IRP at p. 329. PGE’s second suggestion is that “it be able to recover reasonable external development costs related to unsuccessful Benchmark Resources.” IRP at p. 330 (emphasis added).

Not only do these proposals run counter to the basic principle, codified in O.R.S. § 757.355(1), that customers pay (and utility shareholders earn returns) only for assets that are placed in service and are “presently used for providing utility service,” they provide PGE with an unfair advantage over third-party suppliers by imposing incremental risks and costs on PGE’s customers. In both cases, customers may end up paying for assets that are never placed in service. These proposals are guaranteed to stifle the competitive markets in Oregon and to increase costs for customers.

## CONCLUSION

The preparation of Portland General Electric’s Integrated Resource Plan and the subsequent actions that it will inform make it highly significant. In fact, the decisions that the utility reaches about its future will be as impactful as any it has taken since the closure of its Trojan Nuclear Power Plant. Central to that decision is what is to become of the Boardman Power Plant.

NIPPC understands that PGE’s preferred plan for the future of the Boardman plant is still under development, so NIPPC defers a detailed review of PGE’s arguments regarding future operation of the Boardman plant until PGE’s plan is better defined and supported. Nevertheless, NIPPC feels compelled to point out within the context of the Commission’s review of the utility’s IRP, that PGE’s recommendation to continue operation of the Boardman plant at least over the near to mid-term due to claims of insufficient sources of replacement power does not match market realities. The Northwest Power & Conservation Council identified in its Fourth Power Plan that substantial un-contracted merchant plant capacity remains uncommitted and is available for contract under long-term PPA. In 2010, a conservative estimate found on the order

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capital is determined based on consideration of PGE’s overall risk profile (considering the full range of PGE’s resource procurement risks) and PGE’s ability to access to the capital markets at reasonable cost.

<sup>13</sup> NIPPC’s more detailed comments are available in the UM 1276 docket.

of 3,000 MW currently exists in the region, and is available to meet capacity shortfalls resulting from the closure of the Boardman Plant.<sup>14</sup>

Furthermore, NIPPC is deeply concerned that PGE's claims could substantively pre-judge the outcome of a competitive solicitation to seek out the cost and availability of independent power producers to help meet the utility's future resource needs.

The Coalition is reminded of the French expression: "plus ça change, plus c'est la même chose," the more things change, the more that they remain the same. Portland General Electric faces virtually unprecedented change and its response is as predictable as it is tired. NIPPC hopes that the Commission will encourage the utility to broaden its horizons and to remove the blinders that have kept it from seeing the full range of options that exist.

Respectfully submitted this 2nd day of February 2010,

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<sup>14</sup> Conservatively 3,000 MW based on existing merchant coal and gas-fired IPP capacity. See, e.g., <http://www.nippc.org/commitments/index.tpl?cntid=10547522278336>.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 2<sup>nd</sup> day February, 2010, a true and correct copy of the within and foregoing **OPENING COMMENTS OF THE NORTHWEST INDEPENDENT POWER PRODUCERS COALITION IN LC 48** was served in the manner shown to:

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