

BEFORE THE PUBLIC UTILITY COMMISSION

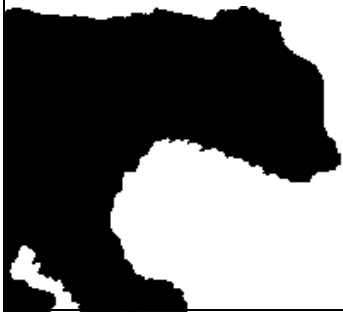
OF OREGON

UM 1535

In the Matter of)
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PORTLAND GENERAL ELECTRIC)
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Request for Proposals for Capacity)
Resources)
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**COMMENTS OF THE
CITIZENS' UTILITY BOARD OF OREGON**

June 22, 2011



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I. Introduction

Oregon requires utilities to issue an RFP and seek competitive bidding before entering into large power development projects. The utility can include a self-build resource from its IRP as a bid, but that self-build option must be compared to competitive bids.¹ Although Oregon requires this competitive structure, the Oregon PUC none the less acknowledges that a utility has an inherent bias towards building its own resource. In UM 1276, parties were unable to develop a mechanism to overcome or offset this bias:

We too accept the premise that a bias exists in the utility resource procurement process that favors utility-owned resources over PPAs. This bias is really a logical inference drawn from an understanding of ratemaking practices and the effectiveness of incentives. As Staff explained in its opening comments about the lack of a return on PPAs:

¹ OPUC Order 06-446 page 5.

[U]nder cost of service regulation, a utility's "profit" is the opportunity to earn a return on the rate base and by purchasing a PPA in lieu of building a power plant, it is foregoing the potential to earn some amount of profit?

The fact that credit rating entities impute debt equivalency amounts from PPAs to a utility's balance sheet similarly incents the acquisition of utility-owned resources.

Although we accept this premise, we share the concern raised by NWECA, CUB, ICNU, and others that, even after this lengthy proceeding, we know little about the scope and impact of this bias. We have identified its existence, but are not able to quantify its significance. We do not know whether the current regulatory process has, in fact, failed to prevent the utilities from acquiring higher cost, utility-owned resources.

Due to this uncertainty, we are unable to determine whether any of the proposals in this docket would mitigate the bias without improperly rewarding the utilities and unfairly harming customers. Both proposals address the self-build bias by providing utilities with monetary incentives to enter into PPAs. Because we have not quantified the impact of the bias on rates, however, the cost of the proposed incentives might greatly exceed whatever harm might otherwise be inflicted on customers. Moreover, as CUB and ICNU note, both proposals could provide utilities financial rewards for those PPAs that they would have entered into without the incentive.

Because of these unresolved questions, we decline to adopt any of the recommended proposals to address the preference of a utility to build new resources rather than buy power from third parties. Given our duty to serve the public interest by ensuring that rates are just and reasonable, we are unwilling to adopt any mechanism that would increase customer rates with no assurance of offsetting risks and costs to the ratepayer.²

Without a mechanism to protect customers from incurring higher costs caused by this bias, Oregon is left with the Competitive Bidding process to offer customers the necessary protection. CUB's focus in reviewing this Request for Proposals is to look for areas that might reflect this bias. CUB's concern is simple – to ensure that the capacity resource that was acknowledged in the IRP reflects the least cost/least risk option for supplying electricity to customers.

² OPUC Order No. 11-001 pages 5-6.

II. Areas that Could Contribute to a Self-Build Bias

1. *CUB has identified several issues that could contribute to a self-build bias in PGE's current search for new capacity resources. 230 kV South of Allston*
2. *Intraday gas storage*
3. *Technology choices*
4. *PGE's site*
5. *Imputed debt*

A. 23 kV South of Allston Line

Transmission is obviously needed in order to bring any capacity resource to PGE's service territory. In its 2009 IRP, PGE cited the need to "integrate a potential new capacity resource" as one of three purposes of the 230 kV transmission line from Trojan to the PGE service territory called the South of Allston Line³. In the 2009 marginal cost study, PGE uses the South of Allston Line in its analysis of future transmission investment:

We first designated the South of Allston project entirely as capacity because it will integrate a new peaking resource of up to 200 MW as well as integrate the Beaver capacity of 181 MW that is not integrated from the Port Westward to Trojan line.⁴

It is not clear how this transmission investment will be allocated to PGE's self-bid proposal, but it is also obvious that it needs to be allocated to the self-build option. If other competitive bidders have to secure transmission rights to get their capacity resource to PGE's service territory, then PGE has to include the costs that it is expecting to incur to get its capacity resource to its service territory.

³ LC 48, PGE IRP, 11/5/09, page 169

⁴ UE 215/PGE/1500/5.

B. Intraday Gas Supply

With regards to gas supply PGE's RFP states:

Bidder must demonstrate physical and commercial access to fuel supplies and fuel transportation for the term of the contract proposed in its bid. Fuel transport and/or gas storage agreements used to support gas thermal bids submitted for Flexible Capacity must allow for intra-day nomination.⁵

While CUB recognizes that intraday gas supply could be important for a capacity resource, we also recognize that there is very little storage available to allow for intraday gas supply, and that purchasing firm transmission for a capacity resource requiring intraday nomination is expensive if available. PGE discusses the relationship of storage to capacity resources in its IRP:

“[A] higher heat rate natural gas peaking plant dispatches on a more variable basis, suggesting the need for a more flexible fueling plan that would include a larger proportion of natural gas storage. Ultimately, the natural gas delivery requirement for each plant must consider expected dispatch (both economic and potential regulation and load - following requirements), as well as the location and relative cost and availability of firm transport and gas storage at the time the decision is made to acquire the generation resource. Depending on cost and availability, our experience suggests that a combination of both firm transport and gas storage can provide reliability of fuel supply, flexibility in meeting variable dispatch requirements and reduced aggregate fueling costs.”⁶

PGE already has invested in a 10 year storage arrangement with NW Natural at Mist.⁷

If storage is necessary for intraday activity, and PGE is the only bidder with storage, then only PGE can meet this requirement. However, because storage was developed separately and funded by customers, PGE may not have to put storage costs into its self-build option. Other bidders, however, would have to include storage.

⁵ UM 1535, PGE Request For Proposals -- Capacity Power Supply Resources, page 18 (May 23, 2011).

⁶ LC 48, PGE 2009 IRP, page 84.

⁷ LC 48, PGE IRP, page 83.

There are two fixes to this that CUB can see. First, PGE can take over the fuel supply for the facility regardless of whether it is self-built or competitive. Second, PGE can make available to competitive bidders the amount of storage that it would have utilized for its own resource. This second choice makes sense, as customers have paid to develop the storage, so it should be used for the least-cost resource.

C. Technology Choice

PGE's 2009 IRP shows that PGE is keen on new generation gas capacity resources:

One of the newer Simple Cycle Combustion Turbine (SCCT) machines is the General Electric LMS100 (LMS100), with a degraded heat rate of 9165. A combination of proven frame and aeroderivative gas turbine technologies, this machine delivers 100 MW with simple - cycle thermal efficiency from 44% to 50%. The design of the CT incorporates an intercooler in the compressor section. The intercooler system takes compressed air from the low - pressure compressor stage, cools the compressed air and redelivers it to the high - pressure compressor stage, increasing mass flow to the CT. The 10 - minute start time, load following and cycling capabilities make the LMS100 an ideal unit for integrating renewable energy resources and meeting dynamic variations in customer demand.

Reciprocating engines (e.g., Wartsila and Jenbacher) are another means of meeting capacity, load following and resource integration needs. These internal combustion, piston - driven machines are designed to burn natural gas and other gases, including LNG, syngas and biogas. The gas engine drives a generator set to produce electrical energy. These machines are available in a range of capacities from 1 MW to 20 MW, and have a degraded heat rate of 8640. They can also be combined in a modular approach to create larger overall generation projects. The 10 - minute start time, load following and cycling capabilities make reciprocating engines ideal units for meeting incremental capacity needs and for integrating renewable energy resources.⁸

CUB understands that a dispute is developing over the possible technologies that could be used to meet the requirements of this RFP. PGE lists the types of technology that it believes is likely to meet its requirements:

- Simple Cycle Combustion Turbines (Aero derivatives)
- Reciprocating Engine
- Pumped Hydro Storage

⁸ LC 48 PGE 2009 IRP, page 135, 136.

- Hydro based generation with pond capability
- Compressed air with Simple Cycle Combustion Turbines

CUB also understands that some bidders believe that the latest frame unit simple cycle combustion turbines can meet the technical demands of the RFP, but are not included in PGE's list of possible technology.

PGE has always been fond of exciting, new technologies. But it seems to CUB that the RFP should be about the responsiveness of the technology that is chosen, not what particular technology is used to meet demand. PGE may believe that the only simple cycle turbines that can meet its requirements are derivatives, but technologies change and improve. If a bidder can submit a frame unit simple cycle turbine which can meet the technical requirements for a capacity resource, then it should be allowed to do so. The goal should be the necessary level of performance at the least cost, not a particular technology.

D. PGE's sites and local communities

PGE's Port Westward site is well-developed, has access to gas storage and a planned transmission investment. Those of us who follow PGE know that the Company has been focused on further development at this site and at the Boardman site. In the case of Boardman, PGE has discussed its plan to build on that site with union officials and local officials who are concerned about the loss of jobs from the closing of Boardman.

In Columbia County, the expectations seem to be that in spite of the RFP, this resource will be built at Port Westward: PGE is currently in the process of developing requests for proposals for roughly 200 megawatts of "flexible capacity" – electrical power which can be brought on-line quickly as a back-up for wind-generated power. Wind generators do not produce power if there is either insufficient wind or too strong winds.

While the Oregon Public Utilities Commission requires PGE to seek requests for proposals to find the most efficient and cost-effective sources of that flexible power, PGE is preparing plans for Unit 2 at Port Westward, an approximately \$200 million, 200 megawatt variable power, non-base load plant, which will be

one of the proposals submitted under PGE's integrated resource plan in mid-August.

The ODOE is currently receiving public comments on a proposed order to extend the deadline for completing construction on the plant until May 9, 2013.

Rick Tetzloff, PGE's project manager for the proposed Port Westward Unit 2, explained that the ODOE issues site certificates for power plants for a maximum of 24 months, and developers must apply for extensions if the completion date is going to be longer than that.

If the proposed Port Westward Unit 2 is selected to be the provider of the 200 megawatts of flexible power, that selection would be expected to be announced in early 2012 with the 18 month construction period beginning around mid-year of 2012.

While the new plant would create only a few permanent jobs, 100 to 200 construction workers would be employed during the construction phase.⁹

CUB would like to see customers' historic investments in these sites used to supply the least cost option, whether it is from PGE or a competitive supplier. In addition, CUB is sympathetic to the concerns of local communities who see the projects as economic development—particularly in the case of Columbia County and Morrow County, which have had to deal with the closure of Trojan and Boardman.

Both of these problems can be solved if PGE makes its company-owned sites available for competitive bidders.

E. Imputed Debt

In UM 1276, the Commission identified imputed debt as one cause of the self-build bias, but concluded that this issue should be addressed in general rate cases:

⁹ [The Clatskanie Chief](#), June 15, 2011

We believe that this issue is more appropriately addressed in the context of an overall examination of a utility's cost of capital.¹⁰

In this proceeding, PGE has listed imputed debt as a factor that will be used to refine the short list:

Imputed Debt - Leverage effects refer to the impact of long-term contracts on PGE's debt-equity ratio and cost of borrowing. As defined in the Oregon Competitive Bidding Guidelines, considerations of ratings agency debt imputation (the leverage adjustment) will be reserved for the selection of the final bids from the initial short list of bids. PGE will obtain an advisory opinion from a ratings agency to substantiate our analysis and final resource selections, if requested by the Commission.¹¹ (page 24).

CUB believes that PGE's position, while consistent with the Oregon Competitive Bidding Guidelines, is in conflict with the more-recent order in UM 1276. CUB reads that order as superseding the Guidelines and directing Parties to deal with debt imputation in rate cases where cost of capital is being established.

III. Conclusion

Oregon's regulatory approach is a bit of a hybrid between a vertically-integrated monopoly and a utility which procures its power from a competitive wholesale market. This hybrid is designed with the expectation that if the utility has to compete against the wholesale market, it will lead to lower costs. This is accomplished through engaging an Independent Evaluator to oversee an RFP process which is designed for a fair comparison of bids.

At the same time, the Commission has concluded that utilities have a bias towards self-built projects. Stakeholders, including CUB, worked for several years trying to figure out a method for removing this bias in UM 1276. That docket did improve understanding of the bias, but did not come up with a method to offset that bias.

¹⁰ OPUC Order 11-001, page 6.

¹¹ UM 1535, PGE Request For Proposals -- Capacity Power Supply Resources, (May 23,2011). Page 24.

CUB believes that there are benefits to competitive bidding even when the utility's self-build option is selected, because the process itself pushes the utility to minimize costs. However, if independent power producers become convinced that the bias cannot be overcome, and they cannot win a bid, then they will not bother to submit bids and all benefits of competitive bidding will disappear. The worst case would be that customers have to fund an expensive RFP process with an Independent Evaluator, but without real, serious bids.

It is critical that this process be perceived as fair. It would be great if this process concluded with a competitive bidder winning the RFP. This assessment is not because CUB opposes PGE as a plant developer, or sees the Company as less competent than an independent power producer, but instead because it would ensure a robust response to future RFPs that will benefit customers.

Respectfully Submitted,
June 22, 2011

A handwritten signature in black ink, appearing to read "Bob Jenks", with a stylized flourish at the end.

Bob Jenks
Executive Director
Citizens' Utility Board of Oregon

UM 1535 – CERTIFICATE OF SERVICE

I hereby certify that, on this 22nd day of June, 2011, I served the foregoing **COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UM 1535 upon each party listed in the UM 1535 OPUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and one copy by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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