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Jeffrey S. Lovinger
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November 18, 2011

Via Electronic and U.S. Mail

Public Utility Commission of Oregon
Attn: Filing Center
P.O. Box 2148
Salem, OR 97308-2148

Re: In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into
Avoided Cost Purchases from Qualifying Facilities – Schedule 37
OPUC Docket No. UE 235


Attention Filing Center:

Enclosed for filing in the above-captioned docket are an original and one copy of *PacifiCorp's November 18, 2011 Letter to Commissioners Susan Ackerman and John Savage regarding Butter Creek Settlement.*

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,



Jeffrey S. Lovinger
Attorney for PacifiCorp

cc: UE 235 Service List

Enclosures

Jeffrey S. Lovinger
Lovinger@LKLaw.com
(503) 230-7120

Via Electronic Mail and U.S. Mail

November 18, 2011

Commissioner Susan Ackerman
Commissioner John Savage
Public Utility Commission of Oregon
550 Capitol St. NE
Salem, Oregon 97301-2551

RE: Butter Creek Settlement (OPUC Docket No. UE 235)

Dear Commissioners:

PacifiCorp and the developers of the proposed Butter Creek Projects—Oregon Wind Farms and TERNA Energy USA—have worked diligently since August 4 to settle their interconnection and power purchase agreement (PPA) disputes regarding the projects. On October 27, 2011, the parties provided Commission Staff with a term sheet outlining the context and major terms of a proposed settlement. On October 31, 2011, Commission Staff issued a report recommending that the Commission find the settlement terms and conditions to be reasonable for the limited purpose of resolving the issue of the application of the outcome of the investigation in Docket UE 235 to Schedule 37 PPAs with the Butter Creek Projects. Staff further recommended that the Commission reserve the review of the prudence of the settlement agreement and the Schedule 37 PPAs for a future rate-making proceeding. The Commission adopted these Staff recommendations at its public meeting on November 1, 2011. The Commission further provided that the adoption of the recommendations was subject to the execution of the Schedule 37 PPAs on or before November 18, 2011.

PacifiCorp and the Butter Creek Projects have executed a settlement agreement, Schedule 37 PPAs, and interconnection agreements for all four of the Butter Creek Projects. These agreements were executed on or before November 18, 2011. The agreements substantially conform to the term sheet provided to Commission Staff on October 27, 2011. PacifiCorp has enclosed a copy of the term sheet (with monetary values redacted).

Sincerely,



Jeff Lovinger
Of Attorneys for PacifiCorp

Enclosure

cc (via email): Maury Galbraith
Peter Richardson

October 26, 2011

PROPOSED TERMS OF SETTLEMENT REGARDING THE BUTTER CREEK PROJECTS

Settlement Overview:

The Parties (as described below) seek Commission approval of a settlement of two major disputes related to Schedule 37 and four 10 MW QF wind projects which will be referred to jointly as the Butter Creek Projects (the "Projects"). These issues were 1) the need for certain transmission upgrades required by PacifiCorp to receive energy deliveries from the Projects; and 2) the cost responsibility for any third-party transmission services which may be required to move excess generation from the Projects' point of delivery in PacifiCorp's Walla Walla Load Area to other parts of PacifiCorp's system.

The Parties have negotiated a combined settlement in which PacifiCorp has agreed to reduce the cost of the transmission upgrades by \$ [REDACTED] and the Projects have agreed to bear the cost up to \$ [REDACTED] in constant (inflation adjusted) dollars for third-party transmission costs and/or curtailment of output from the Projects. For simplification, all dollar figures below are in 2013 constant dollars.

Dispute #1

In order to accept deliveries from the Butter Creek Projects, PacifiCorp must upgrade the capacity of its 230 kV, Cold Springs Substation from 60 MW to at least 100 MW. The substation is currently configured as a simple tap and was originally designed only to serve customer load. It is PacifiCorp's policy to change such substations to a ring bus configuration when implementing a major rebuild and accommodating a major generator interconnection project.

The Parties have agreed, subject to Commission approval, that PacifiCorp will build the ring bus to accommodate the interconnection, that the Butter Creek Projects will pay the actual cost of such construction, and that PacifiCorp will discount those costs by \$ [REDACTED].

Dispute #2

As noted in detail in PacifiCorp's filing in Advice No. 11-011, PacifiCorp believes that at certain times generation in its Walla Walla Load Area may exceed the load in the area. In order to accept all of the deliveries from the Projects, the Projects' generation in excess of load would have to be moved to other parts of its system. PacifiCorp believes the cost of any third-party transmission required to accomplish this should be the responsibility of the Projects. The most certain way to do this is through the purchase of long-term firm transmission for the entire output of the Projects. PacifiCorp estimates that this would cost in excess of \$ [REDACTED] over the term of the PPAs.

October 26, 2011

The Butter Creek Projects believe that 1) there may not be an excess generation problem in the Walla Walla Load Area, 2) that the cost of any third-party transmission or curtailment should be borne by PacifiCorp, and 3) that purchasing long-term firm transmission for all of the output of the Projects is unnecessary, given the infrequent nature of the potential problem.

The Parties have agreed, subject to Commission approval, to rely on a combination of limited third-party transmission service and curtailment to accommodate any need to move excess generation out of the Walla Walla Load Area or to reduce generation from the Projects. The Butter Creek Projects have agreed to bear the cost of up to \$ [REDACTED] over the term of the PPAs for third-party transmission service and curtailment.

Background:

In March 2009, the original developer, Oregon Windfarms, LLC (“OWF”), applied to PacifiCorp’s transmission function (“PacifiCorp Transmission”) to interconnect the proposed Butter Creek Projects. The Butter Creek Projects are delivering output to the same point of interconnection to PacifiCorp’s system as nine existing QF projects previously developed by OWF and referred to as the Echo Projects. The Butter Creek Projects would share certain interconnection facilities and infrastructure with the Echo Projects. PacifiCorp Transmission studied the request and provided OWF with a draft interconnection agreement in June 2010. The draft interconnection agreement included the requirement for a three-breaker ring bus at PacifiCorp’s Cold Springs Substation to be paid for by the owner of the Butter Creek Projects.

OWF sold its interest in the Butter Creek Projects to TERNA Energy USA Holding Corporation (“TERNA”) effective December 2010 and TERNA became the sole member of the limited liability company of each of the four Butter Creek Projects – High Plateau Windfarm, LLC, Lower Ridge Windfarm, LLC, Mule Hollow Windfarm, LLC and Pine City Windfarm, LLC (collectively, the “Butter Creek LLCs”). In May 2011, the Butter Creek LLCs applied to PacifiCorp’s merchant function (“PacifiCorp Merchant”) seeking a PPA for each Butter Creek Project under PacifiCorp’s Oregon Tariff Schedule 37. In June 2011, PacifiCorp Merchant responded to this request by asking TERNA for information to verify that its 40 MW of proposed new development qualified for published rates under Schedule 37. In June 2011, PacifiCorp Merchant also informed TERNA that third-party transmission services might be required to move some or all of the Butter Creek Project output from the point of delivery to PacifiCorp load and indicating that the QF projects would be required to bear the cost of any such third-party transmission.

On June 27, 2011, PacifiCorp filed Advice No. 11-011 seeking to revise Schedule 37 to make it clear that QF owners must pay the cost of any third-party transmission needed to move QF output from the point of delivery to PacifiCorp load. The Commission ultimately suspended Advice No. 11-011 and initiated a six-month investigation into the changes to Schedule 37 sought by PacifiCorp. The Commission has deferred any

October 26, 2011

decision about whether the outcome of the investigation and Advice No. 11-011 will apply to the Butter Creek Projects. The Commission directed PacifiCorp and the developers of the Butter Creek Projects to attempt to reach a compromise settlement of their disputes.

Key Terms of the Proposed Settlement:

PacifiCorp and the Butter Creek LLCs have worked diligently to settle their differences and have reached agreement in principle to settle on the following terms. PacifiCorp and Butter Creek LLCs respectfully request that the Commission issue a ruling finding the following proposed terms of settlement to be just and reasonable.

1. Interconnection Agreements. The Butter Creek LLCs and PacifiCorp will execute interconnection agreements for each of the four Butter Creek Projects under which the Butter Creek LLCs agree to pay the actual cost to construct all required interconnection facilities and upgrades to PacifiCorp's system, including without limit a three-breaker ring bus at Cold Springs substation. Total estimated cost of all interconnection facilities and upgrades to be paid by the Butter Creek LLCs is \$ [REDACTED].
2. Settlement Agreement. TERNA, OWF, the Butter Creek LLCs and PacifiCorp will all execute a settlement agreement whereby:
 - a. PacifiCorp agrees to provide the Butter Creek LLCs with a \$ [REDACTED] credit toward the actual cost referred to in item (1) above.
 - b. PacifiCorp and the Butter Creek LLCs agree to enter into a PPA for each Butter Creek Project on the terms described in item (3) below;
 - c. TERNA, OWF and the Butter Creek LLCs agree to release PacifiCorp from any claims related to their request for interconnection agreements or PPAs and agree not to oppose Advice No. 11-011 or intervene or comment in UE 235;
 - d. PacifiCorp does not admit any wrongdoing or violation of Commission requirements or filed tariff.
3. Power Purchase Agreements. Each of the Butter Creek LLCs and PacifiCorp will execute a standard Schedule 37 PPA for each proposed Butter Creek Project with the following Addenda:
 - a. Addendum A—addresses Seller's right to substitute other acceptable forms of security from time-to-time; addresses Seller's responsibilities if it chooses to provide "step-in rights" as security; clarifies that PacifiCorp is not required to purchase net output during certain system curtailments directed by PacifiCorp Transmission.

October 26, 2011

- b. Addendum B—Provides that Seller will bear the cost of up to \$ [REDACTED] (\$ [REDACTED] per Butter Creek Project) worth of either: (i) third-party point-to-point transmission service required to move Butter Creek Project output to PacifiCorp load; or (ii) curtailment of Butter Creek Project output.
 - c. Addendum L—Provides for allocation of co-mingled line losses among the Butter Creek Projects and a group of QF wind projects previously developed by OWF, known as the Echo Projects, that share a private 69 kV interconnection line.
4. Agreement Regarding Shared Interconnection Facilities. The Butter Creek LLCs, PacifiCorp, the co-owners of each of the Echo Projects, the co-owners of each of the Butter Creek Projects, and the shared facility manager, Exelon Wind, LLC, will all execute an Agreement Regarding Shared Interconnection Facilities whereby the parties will agree to each QFs' proportional share of the operation and maintenance cost of all of the interconnection facilities associated with the Echo Projects and the Butter Creek Projects and whereby the parties agree to appoint a shared facilities manager to manage the common interconnection facilities.

CERTIFICATE OF SERVICE

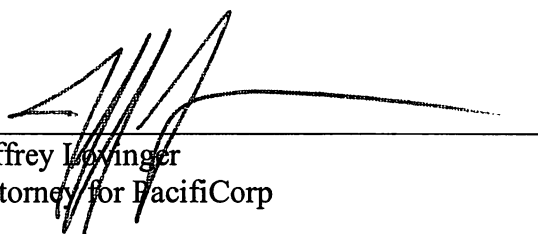
I hereby certify that, on November 18, 2011, I served a true and correct copy of the foregoing *PacifiCorp's November 18, 2011 Letter to Commissioners Susan Ackerman and John Savage regarding Butter Creek Settlement* regarding OPUC Docket No. UE 235 on the following named persons/entities by electronic mail:

<p>PAUL R WOODIN (W) EXECUTIVE DIRECTOR COMMUNITY RENEWABLE ENERGY ASSOCIATION 1113 KELLY AVE THE DALLES, OR 97058 pwoodin@communityrenewables.org</p>	<p>MICHAEL T WEIRICH PUC STAFF—DEPARTMENT OF JUSTICE BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 michael.weirich@doj.state.or.us</p>
<p>IRION A SANGER (W) ASSOCIATE ATTORNEY DAVISON VAN CLEVE 333 SW TAYLOR - STE 400 PORTLAND OR 97204 mail@dvclaw.com</p>	<p>JOHN W STEPHENS (W) ESLER STEPHENS & BUCKLEY 888 SW FIFTH AVE STE 700 PORTLAND OR 97204-2021 stephens@eslerstephens.com mec@eslerstephens.com</p>
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DONALD W SCHOENBECK (W) REGULATORY & COGENERATION SERVICES INC 900 WASHINGTON ST STE 780 VANCOUVER WA 98660-3455 dws@r-c-s-inc.com	
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DATED this 18th day of November, 2011.

LOVINGER KAUFMANN LLP



Jeffrey Lovinger
Attorney for PacifiCorp