

September 13, 2013

Via Electronic and U.S. Mail

Public Utility Commission of Oregon
Attn: Filing Center
P.O. Box 2148
Salem, OR 97308-2148
puc.filingcenter@state.or.us

Re: OPUC Docket Nos. UM 1610 and UM 1664

Attention Filing Center:

Enclosed for filing in the above-captioned docket are an original and ten copies of comment letter of OneEnergy, Inc. regarding Docket No. UM 1610 and also relating to issues raised in Docket No. UM 1664.

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

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink that reads "Ken Kaufmann". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Ken Kaufmann
Attorney for OneEnergy, Inc.

Enclosures

cc: UM 1610 Service List
UM 1664 Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on the 13th day of September 2013, I served a true and correct copy of the foregoing comment letter of OneEnergy, Inc. in OPUC Docket Nos. UM 1610 and UM 1664 on the following named persons/entities by electronic mail.

DATED this 13th day of September 2013.

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RE: Comments of OneEnergy, Inc. in Docket Nos. UM 1610 and UM 1664

Dear Commissioners:

On July 22, 2013 in Docket No. UM 1664, Portland General Electric (PGE) filed proposed new Schedule 201 rates for qualifying facilities (QFs) that, if allowed to go into effect, would increase PGE's resource sufficiency period, for purposes of calculating the standard avoided cost rate under PURPA, to over seven years (until 2021). For a 1 MW baseload project, the proposed change would decrease the revenue of a 15-year PPA by approximately \$1 million (or 15% of the PPA's present value) compared to current rates. Price reductions in the initial 10 years, which are critical for financing, would decrease revenue by over 20%. PGE's proposed changes would effectively halt new QF development in Oregon under the current PURPA framework, especially after the other investor owned utilities follow suit. Moreover, we believe adoption of such extended sufficiency periods is antithetical to the statewide goal for 8% of power to come from projects under 20 MW by 2025 – a goal which the Commission is required to adopt policies and procedures to implement. ORS 469A.210.

Indeed, PGE's proposed Schedule 201 rates demonstrate that Oregon's current approach for paying capacity value to QFs needs repair. PGE's recent corporate history is marked by very large capacity resource additions (and proposed additions) to rate base. During the last several years, PGE has consistently been short capacity, leading the utility to pursue the Port Westward II reciprocating engine plant, the Carty Generating Station combined cycle plant, the Cascade Crossing Transmission project (now sidelined in favor of a resource sharing arrangement with BPA), and seasonal market capacity purchases. Yet PGE's Schedule 201 rates effective January 19, 2013 pay zero capacity value until 2016 – and the proposed new Schedule 201 rates will pay zero capacity value until 2021.

In short, PGE pays zero capacity value to QFs in the near term while at the same time strongly pursuing its own capacity resources; and once it acquires those resources, proposes to pay zero for even longer. The Commission should act to rebalance QF pricing with utility acquisitions.

Although parties have raised related issues in UM 1610, the very long sufficiency periods being proposed by PGE deserve special consideration because their magnitude was not evident during the recent proceedings in UM 1610 nor in UM 1129. When the Commission

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embraced the current PURPA avoided cost price framework, in UM 1129, the Commission adopted a framework that allowed for financeable QF power purchase agreements, given the sufficiency periods and market prices at the time. The methodology was not exact. However it achieved, more or less, an appropriate price signal. In the ensuing years, the Oregon Business Energy Tax Credit has largely gone away, energy market prices have dropped, and now the utilities are proposing to double the sufficiency period. The resulting avoided cost prices under the current methodology would no longer foster any development of renewable generation in Oregon.

Some will argue that the longer sufficiency periods proposed by the utilities send the appropriate economic signal to developers, where utilities are not planning to build new major resources. This rationale has flaws, however. Most notably, PGE intends to meet part of its future capacity needs with imported power and plans large new transmission projects to accommodate those purchases years before their next planned major generation acquisition. PGE's acknowledged 2009 IRP Action Plan calls for completing the Cascade Crossing Transmission Project by 2015 to access existing and future resources.¹ PGE recently canceled the Cascade Crossing but, in lieu, announced a new plan to acquire 1,500 MW of new transmission capacity from BPA. PGE has not yet committed to the new investment and it could be deferred by the acquisition of QF power.

A utility's sufficiency period may be demarcated by, either: (a) the acquisition of a major generating station, or (b) the acquisition of major transmission capacity used to import power. Both such resources could be delayed, deferred, or reduced in size by acquisition of QF resources. (Indeed the Commission has already endorsed Idaho Power Company's use of a major transmission upgrade as the sufficiency/deficiency demarcation point.²) Further, QFs should receive value for capacity *before* such major acquisition if the utility will be making other incremental capacity purchases from the market.

The likely ramifications of the proposed sufficiency periods on QFs highlights the importance in Docket No. UM 1610 of not determining a new QF methodology without first considering the resulting QF rates. If the resulting rates under the new methodology are less than the utilities' cost to build major transmission facilities and to purchase incremental capacity from the market, then they might not satisfy the requirements of PURPA. The parties in UM 1610 have identified many quantifiable ways QFs provide value that are not captured in the current avoided cost methodology. Assigning value to those traits (e.g. lumpiness, avoided CO₂, stochastic risk, reduced line losses, etc.), in combination with tilted or levelized rates, may go a long way towards maintaining an avoided cost framework that meets the requirements of PURPA and allows QFs to develop new projects. Unless these values are recognized,

¹ PGE 2009 IRP Addendum, p. 2.

² *In the Matter of Idaho Power Company, Application to Revise the Methodology Used to Determine Standard Avoided Cost Prices and Motion for Temporary Stay of Obligation to Enter into New Power Purchase Agreements with Qualifying Facilities*, OPUC Docket Nos. UM 1590, UM 1593, Order No. 12-146 (2012) (approving new QF prices with a sufficiency period ending when Idaho Power's IRP schedules the Boardman to Hemingway transmission line to be operational).

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reexamination of how the sufficiency period is determined and quantification of utility capacity purchases during sufficiency may be warranted.

Thank you for your consideration.

A handwritten signature in black ink, appearing to read 'Bill Eddie', with a long horizontal line extending to the right.

Bill Eddie
President, OneEnergy Renewables

CC:

Service list (UM 1664)

Service list (UM 1610)