

ELLEN F. ROSENBLUM
Attorney General



FREDERICK M. BOSS
Deputy Attorney General

DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

July 27, 2016

VIA ELECTRONIC MAIL ONLY

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street, Suite 100
P.O. Box 1088
Salem, OR 97308-1088

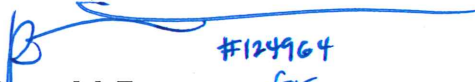
Re: *In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation into
Qualifying Facility Contracting and Pricing*
PUC Docket No.: UM 1610 / Phase 2
DOJ File No.: 330-030-GN0240-12

To the Filing Center:

On behalf of the Oregon Department of Energy, enclosed for electronic filing today with
the Commission, in the above-captioned matter is:

1. THE OREGON DEPARTMENT OF ENERGY'S RESPONSE TO PACIFICORP'S
AND PORTLAND GENERAL ELECTRIC COMPANY'S JOINT APPLICATION FOR
RECONSIDERATION AND JOINT MOTION TO STAY COMPLIANCE.

Sincerely, *


#124964
for
Renee M. France
Senior Assistant Attorney General
Natural Resources Section

Enclosures
RMF:jrs/#7581868
c: Phil Carver, ODOE
Wendy Simons, ODOE

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1610

In the Matter of

PUBLIC UTILITY COMMISSION OF OREGON

Investigation into Qualifying Facility Contracting
and Pricing.

THE OREGON DEPARTMENT OF ENERGY'S
RESPONSE TO PACIFICORP'S AND
PORTLAND GENERAL ELECTRIC
COMPANY'S JOINT APPLICATION FOR
RECONSIDERATION AND JOINT MOTION
TO STAY COMPLIANCE

On July 12, Portland General Electric Company ("PGE") and PacifiCorp (collectively the "Companies") filed the above-referenced application for reconsideration of Public Utility Commission (the "Commission") Order No. 16-174 (the "Order"), along with a motion for a stay. For the reasons set forth below, the Oregon Department of Energy (the "Department") opposes both the joint application for reconsideration and the motion to stay.

A. Response to Application for Reconsideration

As explained in the joint application, the Companies object to the use of wholesale power price forecasts as the avoided costs floor for both the sufficiency and deficiency periods when utilities negotiate contracts with QF's larger than 10 MW (non-standard contracts), Issue Number Seven in Phase II of UM 1610. The Department agrees with the standard of review, response to the request for reconsideration, and the response to the motion to stay provided by Public Utility Commission Staff in its July 26, 2016 *Response to PacifiCorp's and PGE's Joint Application for Reconsideration and Joint Motion to Stay Compliance* ("Staff Response"). The Department adds the following economic arguments to support Staff's conclusion that the Commission's decision to impose the use of wholesale prices as an avoided cost floor during the deficiency period was not based on an error of law and is not unreasonable.

For purposes of the deficiency period for non-renewable avoided costs, absent a market failure, the economic incentives to build new generation should assure that wholesale power prices are never materially above levelized avoided costs that are based on building and operating new generation. As explained below, there should be no consistent difference between the forecast of wholesale power prices and the forecast of the full cost of non-renewable replacement resources after the western surplus is absorbed by load growth and coal plant retirements. Until that time, wholesale prices should be below the cost of replacement resources. If a forecast of wholesale power prices were materially above deficiency period avoided costs, the Department would question the accuracy of such forecast.

Virtually all models used to forecast western wholesale prices assume that new resources (typically natural gas-fired combustion turbines, NGCTs) will be constructed when levelized forward-looking wholesale prices exceed the operating and capital cost of new resources. This is the way the Northwest Power and Conservation Council's power price forecasting model works. Otherwise load-serving utilities would not be minimizing costs and independent power producers would not be maximizing profits. Wholesale power prices can be below the cost of new NGCTs because there is little incentive to build new generation. However, when expected wholesale power price rise above the costs of new plants, such plants will be built and drive down prices back to the full cost of new power plants. Absent a market failure, at no time should levelized wholesale power price forecasts be materially above the full cost of new power plants. In UM 1610 and in their request for reconsideration the Companies have not suggested that their models assume a market failure of this type. Absent such a showing, reasonable forecasting models should not show wholesale power prices materially above the full cost of new power plants.

Therefore using wholesale power price as a floor during the deficiency period prices paid to QFs should not exceed the avoided costs related to a new power plant.

As noted, the comments above are directed at non-renewable avoided costs. For purposes of renewable avoided costs, the Department expects these cost will be the same or higher than non-renewable avoided costs during the deficiency period. If not, renewable avoided costs will be irrelevant because renewable developers will choose non-renewable avoided costs. Non-renewable contracts do not require developers to transfer the renewable energy certificates to the electric companies, but renewable contracts do. Therefore, to the extent the Department's discussion above resolves issues about using wholesale prices for non-renewable deficiency period avoided costs, it should also resolve issues related to renewable avoided costs as these will be higher or will be irrelevant.

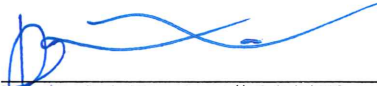
B. Conclusion

For the reasons identified in the Staff Response, as supported by the economic considerations provided above, the Department recommends that the Commission deny the application for reconsideration. In the event the Commission denies the application for reconsideration, there would be no reason to stay the Order.

DATED this 27th day of July 2016.

Respectfully submitted,

ELLEN F. ROSENBLUM
Attorney General

 #124964
for

Renee M. France, # 004472
Senior Assistant Attorney General
Of Attorneys for Oregon Department of Energy,
State of Oregon