

ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 25, 2016

REGULAR  X  CONSENT       EFFECTIVE DATE  October 26, 2016

DATE: October 19, 2016

TO: Public Utility Commission

FROM: Brittany Andrus *ba*  
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THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PACIFIC POWER: (Docket No. UM 1610) Compliance Filing to Update Standard Avoided Cost Rates (Schedule 37) and Non-Standard Avoided Cost Rates (Schedule 38).

**STAFF RECOMMENDATION:**

Staff recommends that the Commission issue an order approving Pacific Power's (PacifiCorp or Company) standard avoided cost prices (previously Schedule 37) filed on July 12, 2016, in compliance with Order No. 16-174.

Staff recommends that the Commission issue an order declining to approve PacifiCorp's compliance filing for non-standard avoided cost prices (previously Schedule 38), on the ground it is not compliant with a previous Commission order requiring PacifiCorp to offer renewable QFs a renewable avoided cost price stream.

**DISCUSSION:**

Issues

Whether the Commission should approve PacifiCorp's (previously Schedule 37) standard avoided cost prices for Qualifying Facilities (QF).

Whether the Commission should approve PacifiCorp's compliance filing non-standard avoided cost prices for non-standard QFs (previously Schedule 38).

## I. Standard Avoided Cost Prices (formerly Schedule 37)

Applicable Orders re: PacifiCorp's filing for standard avoided cost prices

On May 13, 2016, the Commission issued Order No. 16-174 in Phase II of its Investigation into Qualifying Facilities Contracting and Pricing (Docket No. UM 1610). In that order, the Commission resolved the issue of the methodology to be used in calculating capacity payments to QFs during a utility's resource deficiency period, and directed utilities to "file revised avoided cost schedules that implement the resolutions made in this order."<sup>1</sup>

The utilities were directed to make compliance filings due within 60 days after the issuance Order No. 16-174. PacifiCorp made its initial compliance filing on July 12, 2016. Subsequently, the Commission directed PacifiCorp's to amend its post-2015 IRP acknowledgment avoided costs "based on renewable and non-renewable deficiency periods beginning 2028, cost and performance data from its acknowledged 2015 Integrated Resource Plan, and updated gas and electricity prices as required in an annual update to incorporate deficiency periods beginning in 2028 for both nonrenewable and renewable standard pricing."<sup>2</sup> PacifiCorp filed revised standard avoided cost prices on August 22, 2016, which replaced its July 12, 2016, compliance filing.

### Analysis

Order No. 16-174 directed the utilities to correct an "inadvertent flaw"<sup>3</sup> in the calculation of the volumetric, rate paid to wind and solar QFs by implementing a new methodology for renewable standard prices. This methodology calculates the capacity value using the contribution to peak ratio for the QF type, and uses an on-peak capacity factor to spread the capacity payments across the number of on-peak MWh the QF is expected to generate during a typical year. The order also directs several additional changes to be implemented in avoided cost price schedules and power purchase agreements.

Staff summarizes its estimates of 15-year levelized avoided costs for the last two sets of PacifiCorp avoided cost prices that have become effective, and for the currently proposed prices, below.

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<sup>1</sup> Ibid. at 31.

<sup>2</sup> Order No. 16-307 in Docket No. 1729(1), issued August 18, 2016, at 1

<sup>3</sup> Order No. 16-174 at 12.

Effective	Deficiency Start/ Capacity Method	Nonrenewable \$/MWh				
		Baseload	Wind	Solar Generic	Solar Fixed	Solar Tracking
June 24, 2015	2024/ Original	\$ 42.16	\$ 31.56	\$ 35.40		
August 24, 2016*	2028/ Original	\$ 36.70	\$ 30.67		\$ 34.55	\$ 34.69
Proposed	2028/ New	\$ 36.75	\$ 32.35		\$ 36.28	\$ 36.23

Effective	Deficiency Start/ Capacity Method	Renewable \$/MWh				
		Baseload	Wind	Solar Generic	Solar Fixed	Solar Tracking
June 24, 2015	2024/ Original	\$ 63.70	\$ 53.09	\$ 56.94		
August 24, 2016*	2028/ Original	\$ 43.46	\$ 37.43		\$ 41.31	\$ 41.45
Proposed	2028/ New	\$ 43.50	\$ 37.43		\$ 41.68	\$ 41.93

\*PacifiCorp's August 24, 2016 filing included the annual update components (May 1 update of market prices and Production Tax Credit status) in addition to the deficiency period change.

Conclusion

Based on its review, Staff concludes that the capacity payment methodology and other changes directed by the Commission in Order No. 16-174, and the deficiency period and pricing directed in Order No. 16-307, have been accurately applied in calculating PacifiCorp's Standard Avoided Cost Rate (previously Schedule 37).

II. Non-Standard Avoided Cost Prices (formerly Schedule 38)

Applicable orders re: PacifiCorp's filing for non-standard avoided cost prices

In Order No. 16-174, the Commission authorized PacifiCorp to "use its Partial Displacement Differential Revenue Requirement (PDDRR) method to determine a starting point for non-standard contract avoided cost price negotiations," and directed PacifiCorp to "open access to its production cost model (GRID) and provide training and technical assistance upon request."<sup>4</sup> The Commission also directed all three utilities to

<sup>4</sup> Order No. 16-174 at 2.

“set the floor for non-standard avoided cost prices at the wholesale power price forecast that is used to set sufficiency period avoided cost prices in standard QF contracts.”<sup>5</sup>  
The utilities were directed to make compliance filings due within 60 days after the issuance Order No. 16-174.

PacifiCorp made its compliance filing on July 12, 2016. Also on July 12, 2016, PacifiCorp and Portland General Electric filed a Joint Application for Reconsideration and a Joint Motion to Stay Compliance. The utilities requested that the Commission “reconsider the decision to establish a mandatory market-price floor for nonstandard avoided costs.”<sup>6</sup> In addition, the companies asked that the Commission stay implementation of the market price floor while considering the issue.

In Order No. 16-337, issued September 8, 2016, the Commission denied the Application for Reconsideration and the Motion to Stay Compliance stating, “We reaffirm that we find the market price to be the appropriate floor for the minimum avoided cost rate paid during a sufficiency period, even if the incremental cost of generation is lower than the market price because absent transmission constraints, a utility may sell the QF generation on the market.”<sup>7</sup>

### Analysis

Staff recommends that the Commission find that PacifiCorp’s compliance filing implementing its PDDRR method for determining non-standard avoided cost prices is not compliant with Commission orders because PacifiCorp’s methodology does not allow renewable QFs entering into a non-standard contract to select a renewable avoided cost price stream as required under Order No. 11-505.

In Order No. 11-505, the Commission concluded that PacifiCorp and PGE must offer renewable QFs a renewable avoided cost price stream:

Because ORS Chapter 469A requires that electric utilities meet a renewable portfolio standard through the acquisition of renewable energy credits (RECs) associated with qualifying renewable generation resources, a properly designed renewable energy avoided cost rate for renewable resources would comply with PURPA.

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<sup>5</sup> Ibid. at 23.

<sup>6</sup> PacifiCorp’s and Portland General Electric Company’s Joint Application for Reconsideration and Joint Motion to Stay Compliance at 1.

<sup>7</sup> Order No. 16-337 at 6.

Exercising this authority, we agree with the parties that a separate avoided cost stream for renewable resources should be adopted for PGE and Pacific Power, the two Oregon utilities currently subject to the RPS.<sup>8</sup>

Under the pricing methodology that would be implemented under PacifiCorp's July 12, 2016 compliance filing, a renewable QF might not have the opportunity to receive non-standard avoided cost prices that take into account RPS-compliance costs that PacifiCorp could avoid with purchases from a renewable QF.

Staff acknowledges that the Commission's decision to allow PacifiCorp to use its PDDRR method to establish non-standard renewable avoided cost prices comes after its decision to require PacifiCorp to offer renewable QFs a renewable and non-renewable avoided cost price stream. However, Staff finds no indication in Order No. 16-174 that the Commission intended to rescind its decision on the availability of renewable avoided cost prices for non-standard QFs.

Staff notes that a comparable issue was raised in the request for declaratory ruling filed by Cypress Creek in which Cypress Creek asked for a ruling that PacifiCorp is obligated to offer non-standard non-renewable QFs a renewable avoided cost price stream.<sup>9</sup> The request for declaratory ruling, which the Commission decided to treat as a Complaint filed under ORS 756.500, concerns Cypress Creek's contention that PacifiCorp is not offering a non-standard renewable avoided cost price stream under the currently effective Schedule 38. The currently effective Schedule 38 requires PacifiCorp to offer non-standard QFs avoided cost prices based on the seven factors outlined in PURPA rules.

The core issue presented by PacifiCorp's July 12, 2016 compliance filing discussed in this memorandum is whether PacifiCorp is required to offer a renewable and non-renewable avoided cost price stream to renewable QFs seeking to enter into a non-standard contract.

### Conclusion

Staff finds no indication in Order No. 16-174 that the Commission intended to rescind the requirement imposed under Order No. 11-505 that PacifiCorp offer renewable QFs a renewable and non-renewable avoided cost price stream and allow the QF to choose one or the other. Staff recommends that the Commission conclude that PacifiCorp's July 12, 2016 compliance filing, which will allow for only one non-standard avoided cost price stream that does not take into account RPS-compliance-related costs that PacifiCorp may avoid with purchases from a renewable QF is not compliant with Order

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<sup>8</sup> Order No. 11-505 at 4.

<sup>9</sup> *In the Matter of Cypress Creek Petition for Declaratory Ruling* (DR 51).

parties to conduct a workshop to discuss the technical aspects of modeling and implementing renewable nonstandard avoided cost prices.

### **PROPOSED COMMISSION MOTION**

Approve PacifiCorp's Compliance Filing for Avoided Cost Power Purchase Information (formerly Schedule 37) filed on July 12, 2016, in compliance with Order No. 16-174.

Not approve PacifiCorp's Non-Standard Avoided Cost Rate (formerly Schedule 38) filed on July 12, 2016, to comply with Order No. 16-174.