

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1610

In the Matter of)	RENEWABLE ENERGY COALITION,
)	COMMUNITY RENEWABLE ENERGY
PUBLIC UTILITY COMMISSION OF)	ASSOCIATION, OBSIDIAN
OREGON)	RENEWABLES, AND ONEENERGY
)	
Investigation Into Qualifying Facility)	PRE-HEARING BRIEF
Contracting and Pricing.)	
)	PHASE II
)	
)	

I. INTRODUCTION

Pursuant to the Administrative Law Judge’s August 28, 2015 Ruling, the Renewable Energy Coalition (the “Coalition” or “REC”), Community Renewable Energy Association (“CREA”), Obsidian Renewables, and OneEnergy (“Joint QF Parties”) submit this pre-hearing brief recommending that the Oregon Public Utility Commission (the “Commission”) revise its methodology to calculate resource sufficiency period rates because market prices do not adequately compensate QFs for the capacity they provide to the utilities.¹ The Joint QF Parties make two recommendations that the Commission should implement to ensure that QFs are fully compensated for the capacity costs that the utilities would acquire, but for the purchase of power from QFs.

¹ The Joint QF Parties are proposing a change in methodology for calculating resource sufficiency rates that, based on current facts, only applies to PacifiCorp. If Idaho Power Company’s (“Idaho Power”) or Portland General Electric Company’s (“PGE”) environmental compliance situation changes, then the methodology could cause a rate change for those utilities as well.

First, the Commission should include a capacity payment for renewable and zero emitting QFs during the resource sufficiency period based on a utility's actual costs of planned investments in capacity retention at its thermal plants.² The recommendation is conservative because it merely incorporates capital costs that are *already planned* based on *existing* environmental regulations. These costs are at least as certain to be incurred as the proxy resources planned to be built in the utilities' integrated resource plans ("IRP"), and are reasonable estimates of actual avoided costs. This policy change would send a modest price signal that these QFs' capacity has long-term value during this critical time of changing environmental regulations, which are likely to impose *additional* costs of environmental compliance that cannot now be included in rates.

The only way the Joint QF Parties' proposal would be unreasonable is if the new regulations were to somehow result in lower capacity retention costs than the existing environmental regulations – a result that no party to this proceeding has suggested is likely to occur. Additionally, adoption of this proposal would appropriately signal Oregon's preference that its utilities purchase small renewable generation instead of out-of-state coal facilities.

Second, the Commission should compensate all QFs for the capacity value associated with the fact that the utilities plan and rely on existing QFs to help avoid and defer capacity investments. Currently, existing QFs that renew their contracts are providing the utilities with free capacity. In this proceeding, the Joint QF Parties

² The Joint QF Parties' specific recommendation on including retained capacity in avoided cost rates applies to QFs that demonstrate either one of the characteristics of being renewable or zero-emitting. Joint QF Parties/100, Higgins/14 n.6. The Joint QF Parties do not oppose expanding the recommendation to all QFs.

recommend that the utilities at least partially remedy this inequity by estimating this capacity value with an alternative IRP scenario.

II. BACKGROUND

The Commission opened this investigation into QF contracting and pricing in 2012, the parties completed legal briefing in Phase I in June 2013, and the Commission issued its Phase I order on February 24, 2014. The fundamental approach to avoided cost rate setting was not challenged in Phase I, but the Commission modified its avoided cost rate methodology to include an adjustment to the capacity component for intermittent resources and the inclusion of wind integration charges. Re Investigation into QF Contracting and Pricing, Docket No. UM 1610, Order No. 14-058, 13-15 (Feb. 24, 2014).

There were three major changes subsequent to the filing of testimony and briefing in Phase I that support revisiting the Commission's avoided cost rate methodology. These include: 1) the Federal Energy Regulatory Commission's ("FERC") decision clarifying that it was illegal for state regulatory commissions not to fully compensate QFs for the capacity value they provide to the utilities; 2) the understanding that the utilities' proposed resource positions would include unprecedented periods of "resource sufficiency;" and 3) the Environmental Protection Agency's ("EPA") rule issued pursuant to Section 111(d) of the Clean Air Act, designed to reduce carbon emissions and combat global warming. Given these changes and the utilities' historically low avoided cost rates, the Joint QF Parties originally planned to challenge the reasonableness of the utilities' 2014 avoided cost rate filings. Instead of challenging the specific avoided cost rate filings, the parties agreed to add the issue of whether QFs are adequately compensated for capacity in the resource sufficiency period rates into Phase II.

III. ARGUMENT

1. Federal and Oregon Law Require that QFs Be Fully Compensated for the Capacity Value They Provide to the Utilities

The Oregon and federal Public Utility Regulatory Policies Acts (“PURPA”) require electric utilities to purchase power from QFs at their avoided costs, which must also be just and reasonable for both QFs and ratepayers. ORS § 758.515; 16 U.S.C. § 824a-3(b)(1). Oregon law and FERC policy also require utilities to purchase electricity from QFs based on the utilities’ full avoided cost. ORS § 758.525(2)(b); Amer. Paper Institute, Inc. v. American Elec. Power Serv. Ass’n, 461 U.S. 402, 406, 412-17 (1983). Avoided costs should be based on a utility’s incremental costs that, but for the purchase from the QFs, the utility would generate or purchase from another source. 16 U.S.C. § 824a-3(d). The Commission has explained that:

Thus, the goal of calculating avoided costs is to accurately estimate the costs a utility would incur to obtain an amount of power that it purchases from a QF, either by the utility’s self-generation or by purchase from a third party.

Re Investigation Relating to Elec. Util. Purchases from QFs, Docket No. UM 1129, Order No. 05-584 at 20 (May 13, 2005).

Avoided cost rates must compensate QFs for both the energy and capacity that the utility would have generated or purchased for itself. 18 C.F.R. §§ 292.101(b)(6), 292.304; Amer. Paper Institute, Inc., 461 U.S. at 406. FERC’s rules provide: “Each qualifying facility shall have the option . . . To provide energy or *capacity* pursuant to a legally enforceable obligation for the delivery of energy or capacity over a specified term.” 18 C.F.R. § 292.304(d)(2) (emphasis added). FERC recently explained that when

a utility has a demand for capacity, then the avoided cost rates must include the capacity costs. Hydrodynamics Inc., 146 FERC ¶ 61,193 at P. 35 (March 20, 2014). In other words, “when the demand for capacity is zero, the cost for capacity may also be zero[;]” but when the demand for capacity is not zero, the cost for capacity may not be zero. Id. A limitation on capacity payments that does not have a “clear relationship” to the utility’s actual demand for capacity will fail “to implement [FERC’s] regulations requiring an electric utility to purchase any capacity which is made available from a QF.” Id.

The Commission is allowed to, and has consistently recognized that it should, include in avoided cost rates actual environmental costs that will be incurred by the utilities and the risks associated with potential environmental costs. FERC has explained that environmental costs can be included in avoided cost rates if they are based on the utility’s actual procurement needs. California Public Utilities Comm’n, 133 FERC ¶ 61,059, P. 26 (Oct. 21, 2010), reh’g denied 134 FERC ¶ 61,044 (Jan. 20, 2011). “[I]f the environmental costs ‘are real costs that would be incurred by utilities,’ then they ‘may be accounted for in a determination of avoided cost rates.’” Id. at P. 31 (quoting and distinguishing Southern California Edison, 71 FERC ¶ 61,269 (June 2, 1995), where FERC determined avoided costs may not include “environmental adders or subtractors that are not based on real costs that would be incurred by utilities”). Thus, an environmental cost that is based on the generation that the utility would otherwise build or buy is not an improper “adder,” but is instead the utility’s actual avoided costs.

The OPUC explicitly recognized this FERC policy when it required PacifiCorp and PGE to offer renewable avoided cost rates based on these utilities’ actual needs for renewable power. Re OPUC Investigation Into Resource Sufficiency Pursuant to Order

No. 06-538, Docket No. UM 1396, Order No. 11-505 at 4-5 (Dec. 13, 2011).

Conversely, Idaho Power is not required to purchase renewable energy under Oregon's renewable portfolio standard ("RPS"), and does not have a renewable avoided cost rate. In addition, the Commission has long incorporated estimates for future environmental regulation in the IRP, which forms the foundation for many of the inputs and assumptions in avoided cost rates. E.g., Re OPUC Investigation Into Integrated Resource Planning, Docket No. UM 1056, Order No. 07-047 at Appendix A at 6 (Feb. 9, 2007).

Oregon's policy goals also are for the utilities to purchase more power from small scale Oregon based renewable generation instead of out-of-state coal facilities. Oregon law itself declares that it is "the policy of the State of Oregon to . . . [i]ncrease the marketability of electric energy produced by qualifying facilities *located throughout the state* for the benefit of Oregon's citizens." ORS § 758.515(3)(emphasis added). More recently, Oregon enacted its RPS, which provides, "The Legislative Assembly finds that community-based renewable energy projects . . . are an essential element of Oregon's energy future." ORS § 469A.210. The RPS "declares that it is the goal of the State of Oregon that by 2025 at least eight percent of Oregon's retail electrical load comes from small-scale renewable energy projects with a generating capacity of 20 megawatts or less." Id. The law even mandates that all executive department agencies, including the OPUC, "*shall* establish policies and procedures promoting the [eight percent] goal declared in this section." Id. (emphasis added). In addition, Oregon's policy is to reduce reliance upon carbon emitting coal resources. ORS § 468A.205(1).

2. Avoided Cost Rates During the Sufficiency Period Are Based on Only Market Purchases

The Commission uses what is called a “proxy method” of calculating avoided cost rates and recognizes that QFs should be compensated for capacity. The Commission separates its avoided cost rates into a resource sufficiency and resource deficiency period. A resource deficiency period is the time when the utility acquires its next major resource (combined cycle combustion turbine for standard and a wind resource for renewable avoided cost rates). During the resource deficiency period, the avoided cost rates are based on the energy and capacity costs of the thermal or renewable resource.

During the resource sufficiency period, the utility is still “deficient” or needs resources, but the avoided cost rates are not based on a new capital resource. Instead, the avoided cost rates are based on forecasted market prices. The Commission uses this approach because it previously concluded that market purchases are the resources the utilities are expected to use to meet load during the time before the acquisition of a new major thermal or renewable resource.

In UM 1129, the Commission’s recognized that QFs should be paid for the capacity value they provide to the utilities during the resource sufficiency period. UM 1129, Order No. 05-584 at 27-28. The Commission explained that the critical issue was not “whether capacity is valued at all, but how it is valued.” *Id.* at 27. The Commission specifically decided to value capacity based on a “monthly on- and off-peak forward market prices as of the utility’s avoided cost filing.” *Id.* at 28.

In UM 1129, the Commission recognized that the parties had not fully developed the record on the issue of resource sufficiency pricing, and invited the parties to address the issue again in the future. The Commission stated that:

issues relating to the scope, nature and quality of QF energy, and the effects of these factors on the calculation of avoided costs, were inadequately developed factually by the parties.

Id. at 28. The Commission explained that it “envision[ed] an ongoing process to improve opportunities for QF power at realistic avoided cost rates”, and invited the parties to address the issue later in UM 1129. Id. at 28-29. The parties, however, did not take up the Commission’s offer in UM 1129 or Phase I of UM 1610, and the methodology for resource sufficiency period pricing established in 2006 remains substantially unchanged.

The Commission’s determinations made in 2006 may have been reasonable based on the facts at the time; however, the time has come to make a change. The Commission recently explained that, when conditions change, it has “a duty to reexamine all PURPA policies, when necessary, to promote QF development while also ensuring that ratepayers pay no more than a utility’s avoided costs.” Re PacifiCorp Application to Reduce the QF Contract Term and Lower the QF Standard Contract Eligibility Cap, Docket No. UM 1734, Order No. 15-209 at 3 (July 7, 2015). The evidence in this case demonstrates that the market based approach to capacity valuation should be revised because it does not accurately compensate QFs for the capacity costs they will cause PacifiCorp to avoid.

3. The Commission Should Include in Avoided Cost Rates PacifiCorp’s Planned Costs Associated with Retaining Capacity Investments

The Commission should modify the methodology for setting resource sufficiency period rates because: 1) they fail to include actual incremental investments necessary to

retain existing capacity resources; 2) the extremely long resource sufficiency periods are likely to be inaccurate because they fail to fully account for future environmental regulations, including the EPA's proposed Section 111(d) green house gas rules; and 3) the actual year of deficiency is undoubtedly inaccurate due to a 12-year period of relying on an uncertain wholesale market. Aside from the requirements of federal and state law, it is poor policy to send a price signal to renewable and zero-emitting QFs that their capacity has little value at a time when they may be an important component avoiding the costs of or meeting future regulatory requirements. Overall, the Commission's current approach does not reflect the utilities' true avoided costs and results in inaccurate, unjust, and unreasonable rates.

A. PacifiCorp's Sufficiency Periods Are Unreasonably Long and Will Result in Artificially Low Avoided Cost Rates

PacifiCorp's long resource sufficiency periods will have the practical result of undercompensating QFs for the actual capacity value that they provide to the utilities and their ratepayers. PacifiCorp's demarcation between resource sufficiency and deficiency has historically been inaccurate and will be even more difficult to estimate given potential regulatory changes. Given the unprecedented long sufficiency periods and high risk of error, the Commission should revise its avoided cost methodology to include a share of the capital investments in retained capacity that the utility is planning to make during the resource sufficiency period.

PacifiCorp's resource sufficiency periods in its avoided cost rates and IRPs are longer than any other period in this millennia. For example, PacifiCorp's current Schedule 37 has resource deficiency period pricing starting in 2024, and the utility's

preferred portfolio in its 2015 IRP indicates that the sufficiency period will extend even further to the end of 2027. Joint QF Parties/100, Higgins/10; Coalition/400, Lowe/10. In contrast, sufficiency periods have historically been from zero to five years. Coalition/401, Lowe/1; Coalition/402, Lowe/3.

PacifiCorp's estimate of its next major resource acquisition has been consistently wrong, especially during the longer term. Coalition/500, Lowe/7-8; Coalition/400, Lowe/18-19. For example, PacifiCorp acquired the Chehalis plant in 2008, even though its IRP and avoided cost rates were set based on the next planned thermal resource four years later in 2012. Coalition/500, Lowe/7-8. While these inaccurate sufficiency periods harmed QFs in the past, it was not as critical because the market based rate time period was short. Coalition/400, Lowe/18-19. The Commission should now be very concerned that these excessively long sufficiency periods could last for nearly all the fixed price portion of a contract period. CREA/500, Skeahan/15; Coalition/400, Lowe/18-19.

As noted above, FERC's rules specifically require the Commission to provide each QF with the opportunity to sell both energy and capacity over a specified term. 18 C.F.R. § 292.304(d)(2); Hydrodynamics Inc., 146 FERC ¶ 61,193 at PP. 31, 35; accord ORS § 758.525(2) ("An electric utility shall offer to purchase energy or *energy and capacity*" and the "price for such purchase shall not be less than the utility's avoided costs")(emphasis added). Under the current framework, the QF will not be able to sell "energy and capacity" over a specified term because PacifiCorp purports in its IRP to not need a fully committed, major capacity resource for virtually the entire term of the Commission's 15-year fixed price contracts. Without adjusting the pricing methodology

during the sufficiency period, QFs will be deprived of their right to sell capacity. This result is directly contrary the federal and Oregon PURPAs and FERC's regulations.

Worst still, PacifiCorp's proposed time for new major capital resource acquisitions are likely to be even more inaccurate given the significant regulatory uncertainty. Some of the major potential events that would cause the utility to acquire significant capacity resources during its alleged resource sufficiency period include: 1) the implementation of EPA's Section 111(d) rules; 2) the adoption of a federal, or changes in Washington's or Oregon's, RPS; 3) a state or federal carbon tax; 4) closure of part of the company's or region's coal or gas generation facilities; 5) the inability to capture the high levels of demand side management; 6) PacifiCorp joining the California Independent System Operator; and 7) the lack of availability of power in the wholesale market. Coalition/500, Lowe/8; Joint QF Parties/100, Higgins/12-13.

The EPA's 111(d) rules are by themselves likely to cause a change in the company's resource planning. Joint QF Parties/100, Higgins/10-13; Joint QF Parties/200, Higgins/6. There appears to be little disagreement that EPA's recently finalized rules are causing significant uncertainty, and PacifiCorp's IRP recognizes this uncertainty. Joint QF Parties/100, Higgins/12; Joint QF Parties/200, Higgins/6. If PacifiCorp's assumptions and guestimates regarding how it can comply with these carbon regulations prove to be inaccurate, then the company will be required to make additional renewable purchases and retire existing thermal resources, which will result in an earlier sufficiency period. Joint QF Parties/100, Higgins/12-13; Coalition/500, Lowe/8.

B. Avoided Cost Rates Should Not Undercompensate QFs When Their Capacity May Be Needed to Meet these Regulatory Requirements

The Commission’s avoided cost rate setting methodology should not send a price signal that the capacity of renewable and zero-emitting QFs has little value. Joint QF Parties/100, Higgins/10. Instead, the Commission should pay renewable and zero emitting QFs a capacity payment based on the incremental costs of the company’s investments in retaining its existing capacity resources. Id. This policy change is necessary because “PacifiCorp is actively incurring significant capital costs to retain capacity at existing coal and fossil-based generators” CREA/500, Skeahan/15.

The dispute in this proceeding is not whether the newly proposed environmental regulations are creating significant uncertainty, but what to do about it in terms of setting avoided cost rates. Joint QF Parties/200, Higgins/6; Coalition/400, Lowe/10.

PacifiCorp’s IRP essentially takes a wait and see approach, which may be appropriate for planning purposes in order to allow the regulatory framework to settle down.

Coalition/400, Lowe/10. This approach, however, is not appropriate for avoided cost rate setting purposes because we know that the company will (and current does) need capacity resources before 2027.

As explained by the Joint QF Parties expert witness Kevin Higgins, this approach is inappropriate for setting avoided cost rates for renewable and zero emitting QFs because it is unreasonable to signal to them:

that their capacity is of little long-term value, and consequently discouraging their development, at this critical time of changing environmental regulations. This question is particularly important when it is understood that development of renewable QFs and zero-emitting QFs is encouraged by the Section 111(d) rules as a means of gaining compliance.

Joint QF Parties/200, Higgins/6; Joint QF Parties/100, Higgins/10, 14.

There are a number of potential ways to address this problem, including eliminating the resource sufficiency/deficiency demarcation, adopting the surrogate avoided cost rate (“SAR”) methodology, and/or including a more accurate resource sufficiency capacity payment. Given the Commission’s repeated preference to continue the overall proxy resource framework for setting avoided cost rates and the invitation to revisit the resource sufficiency prices, Mr. Higgins developed a limited proposal to more accurately estimate the capacity value during the sufficiency period.

Specifically, the Joint QF Parties recommend that avoided cost rates include PacifiCorp’s planned incremental capacity costs related to environmental upgrades that are necessary to continue operating its coal plants. Joint QF Parties/100, Higgins/14; Joint QF Parties/200, Higgins/6-7. The company’s environmental upgrades represent planned investments in capacity and “are indicative of the valuation the Company is placing on capacity during the IRP sufficiency period.” Joint QF Parties/100, Higgins/14. This recommendation is “conservative because it only asks that the QF be compensated for only the investments to retain rather than replace these capacity resources.” Coalition/600, Lowe/9; Joint QF Parties/200, Higgins/7.

C. Capacity Costs During the Resource Sufficiency Period Should Be Based on the Utilities’ Actual Planned Capacity Costs

Mr. Higgins’ recommendation is based on more accurately capturing the actual and real capacity costs that a utility is planning to incur during the resource sufficiency period. While the uncertainty associated with environmental regulations and long sufficiency periods alone support correcting the capacity valuation, the proposal is

fundamentally based on compensating QFs for the actual per unit cost of planned upgrades. Joint QF Parties/100, Higgins/15-16; Joint QF Parties/200, Higgins/4-5.

Staff and the utilities, however, assert that these costs are uncertain, not real, or an inappropriate environmental “add-on.” Staff/600, Andrus/19-20; Idaho Power/1000, Youngblood/14; PGE/700, Macfarlane–Morton/7-8; PAC/1100, Dickman/16. Contrary to these assertions, PacifiCorp’s planned investments are not the costs of environmental externalities or some sort of environmental “add-on.” Instead, they are accurate estimates of actual, planned capacity projects. It is beyond serious dispute that “PacifiCorp’s prudent investments in environmental upgrades have been and will likely continue to be included in rate base to enable the Company to earn a return on and of these investments.” Joint QF Parties/200, Higgins/5-6. These near-term capital upgrades are at least as likely to occur as the next major proxy resource, and are therefore an equally valid basis upon which to calculate avoided cost rates.

Mr. Higgins calculated the value of PacifiCorp’s capacity retentions by using the company’s IRP to identify the specific environmental upgrades and their estimated costs. Joint QF Parties/100, Higgins/15-17. Mr. Higgins did not include all of these planned capacity additions, but only those in the company’s resource sufficiency period. Id. at Higgins/15. The approach identifies the projected stream of annual revenue requirements for the remaining useful life of the plants using the same overall method that PacifiCorp does when determining the revenue requirement for a deferrable thermal plant. Id. at Higgins/16. The average capacity value of these deferrable investments is then converted into on-peak energy prices consistent with the current Schedule 37 approach. Id.

The utilities have not raised any disputes about Mr. Higgins' calculations or argued that it is somehow inconsistent with how Schedule 37 rates are calculated. While not disputing the calculations, PacifiCorp lodges three misplaced arguments: 1) Oregon QFs cannot avoid the environmental upgrades; 2) some upgrades are not required; and 3) other upgrades will already been completed. PAC/1100, Dickman/12-13.

PacifiCorp's mischaracterizes how avoided cost rates are set. Mr. Higgins' proposal relies on actual, planned capacity additions that will occur due to *existing* environmental regulations. Joint QF Parties/200, Higgins/8. The proposal is based on "real costs" that are currently planned. *Id.* at 5-8. That EPA's newly promulgated Section 111(d) rules are likely to impose *additional* capacity costs on PacifiCorp makes the proposal very conservative because the proposal does not include those *additional* costs. No party has suggested that the new regulations would result in lower capacity retention costs than the existing environmental regulations.

The question is not whether a single Oregon QF can defer any particular resource, but what investments QFs in the aggregate will allow the utility to avoid. FERC's rules require, to the extent practical, that the Commission consider the aggregate capacity value of small QFs. 18 C.F.R. § 292.304(e)(2)(vi). As FERC explained, even though small amounts of capacity provided from QFs taken individually might not enable a purchasing utility to defer or avoid scheduled capacity additions, the aggregate capability of such purchases may permit the deferral or avoidance of a capacity addition. Small Power Prod. and Cogeneration Facilities; Regulations Implementing Sec. 210 of the Pub. Util. Reg. Pol. Act of 1978, Order No. 69, 45 Fed. Reg. 12,214, 12,227 (Feb. 25, 1980). Consistent with FERC's explanation, PacifiCorp in fact includes small QF contracts in its load resource

balance so as “to avoid planning to construct or acquire duplicative facilities.” Joint QF Parties/100, Higgins/7. Small QFs are paid their “proportionate share of the overall costs of the proxy resources (currently now market purchases in the sufficiency period and a thermal or renewable resource in the deficiency period).” Coalition/600, Lowe/8-9. The logical result of PacifiCorp’s argument is that Oregon QFs would never be paid any capacity because no single Oregon QF can displace a Utah thermal power plant. Id.

PacifiCorp simultaneously argues that some environmental upgrades cannot be deferred while others may not happen because the IRP assumptions may be inaccurate. PAC/1100, Dickman/12-14. Similar to all inputs and assumptions in the IRP, coal plant investments planned in the next few years may be wrong, but “are less likely to be inaccurate than a resource sufficiency period that is more than a decade out.” Coalition/600, Lowe/8. PacifiCorp’s arguments are essentially a “Catch 22” in which the “only ‘real’ projects should be used for avoided cost pricing, but once the project is ‘real’ it can no longer be avoided.” Joint QF Parties/200, Higgins/8.

ODOE supports the overall approach, but recommends that the specific values be determined in a separate case. ODOE/900, Carver/8. The Joint QF Parties agree that Mr. Higgins specific values are illustrative, and would vary depending on the utilities’ actual planned upgrades. In other words, Mr. Higgins’ methodology is not dependent upon any specific upgrades, and can readily be revised in future rate-setting proceedings to incorporate the specific investments that any utility includes in its resource plan as a basis to defer the next major proxy resource while complying with environmental regulations. Joint QF Parties/200, Higgins/8-9.

4. The Capacity Value Provided By Existing QFs Should Be Recognized in the Avoided Cost Rate Setting Process

Existing QFs provide the utilities and ratepayers with capacity benefits that are not recognized in the current avoided cost rate setting methodology. Small QFs renew their contracts, but in Oregon none of them are paid for the capacity benefits they provide to a utility because the utility plans on them renewing their contracts. The Commission should direct the utilities to compensate QFs for these benefits by using an alternative analysis during the IRP process. This approach would not capture all the benefits created by existing QFs that renew their contracts, but it is preferable to the status quo.

The utilities' IRPs assume that small QFs will renew their contracts upon expiration. ODOE/400, Carver/7; Coalition/102, Lowe/3; Joint QF Parties/100, Higgins/4-5. This assumption is reasonable because nearly all of these QFs do not have other alternatives to sell their power, and they reliably renew their contracts. Existing QFs help defer new capacity resources since the utilities plan on them selling power after the expiration of their contracts. PacifiCorp agrees that existing QFs help defer its next capacity resource because the "capacity contribution of all signed QF contracts executed subsequent to the development of the IRP preferred portfolio reduce the deferrable capacity of the next avoidable resource" PAC/100, Dickman/15. Currently, existing QFs are essentially "providing this capacity, effectively for free, through their assumed contract renewals." Joint QF Parties/100, Higgins/8.

Avoided cost rates should reflect that existing QFs provide capacity value by helping to defer the utilities' need to buy or build new capacity resources. In Phase I, REC and ODOE recommended that existing QFs that renew their contracts should be

provided energy and capacity payments by allowing them to enter into follow-on contracts with no resource sufficiency period. This is the manner in which Idaho compensates existing QFs for their capacity value, is REC's preferred approach, and Idaho Power appears to support this approach. Re the Commission's Review of PURPA QF Contract Provisions including the SAR and IRP Methodologies for Calculating Avoided Cost Rates, Idaho Public Utilities Commission ("IPUC") Case No. GNR-E-11-03, Order No. 32697 at 21-22 (Dec. 18, 2012); Idaho Power/1000, Youngblood/14.

The Joint QF Parties recommend that all QFs be compensated for at least a portion of the capacity value renewing QFs provide to the utilities. As explained by Mr. Higgins, adopting Idaho's approach is preferable because it "would ameliorate the impact on existing QFs of PacifiCorp's assumed renewal of small QF contracts. However, unless the IPUC approach is adopted in Oregon" it is necessary to provide some recognition of the benefits provided by renewing QFs. Joint QF Parties/200, Higgins/3.

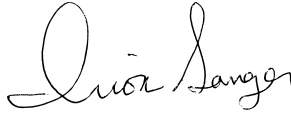
Mr. Higgins recommends that an alternative IRP scenario be performed to calculate a portion of the benefits contributed by existing QFs that renew their contracts. Joint QF Parties/100, Higgins/4-5, 7-9. Commission Staff witness Brittany Andrus supports this recommendation. Staff/600, Andrus/19. The alternative IRP scenario would assume that the QFs did not renew their contracts, which would be a proxy for some of the capacity benefits they provide to the utilities. Joint QF Parties/100, Higgins/4-5, 7-9. This would not change how the utilities' actually plan on the QFs renewing their contracts, but only attempt to estimate this capacity value so that avoided cost rates can be more accurately calculated. Id.

IV. CONCLUSION

The Commission's current methodology sets resource sufficiency rates lower than PacifiCorp's actual avoided costs. Market prices do not accurately estimate the capacity value that QFs will provide because they do not include the well-documented costs of substantial capacity retention investments. In addition, PacifiCorp's sufficiency periods are inaccurately long, and fail to address the risk of new regulatory requirements, including the EPA's recently finalized Section 111(d) rules. The Commission should remedy this problem by compensating renewable and zero-emitting QF for the average value of the company's planned capacity retentions that are an accurate estimate of the costs PacifiCorp would incur but for purchases from QFs. Finally, the Commission should recognize at least a portion of the real capacity value provided by existing QFs that renew their contracts and provide free capacity to the utilities. While paying existing QFs a full capacity payment during the sufficiency period would be preferable, the Joint QF Parties recommend in this proceeding that the Commission adopt Mr. Higgins' recommended approach to run an alternative IRP scenario. This would at least partly compensate all QFs for the capacity value associated with the utilities planning on existing QFs renewing their contracts.

Dated this 2nd day of September 2015.

Respectfully submitted,



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