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June 17, 2013

Attention: Filing Center
Public Utility Commission of Oregon
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Re: *In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into Qualifying Facility Contracting and Pricing*
OPUC Docket No.: UM 1610
DOJ File No.: 860-115-GB0532-12

Enclosed for filing with the Commission today are an original and five copies of STAFF POST-HEARING MEMORANDUM with certificate of service/service list.

Sincerely,

Stephanie S. Andrus
Senior Assistant Attorney General
Business Activities Section

Enclosures
SSA:jrs/#4347596
c: UM 1610 Service list (electronic copy only)

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1610

In the Matter of Public Utility Commission of Staff Investigation into Qualifying Facility Contracting and Pricing	**STAFF POST-HEARING MEMORANDUM**

The Commission opened this generic investigation into implementation of the Public Utility Regulatory Policy Act ("PURPA") in response to a number of disputes regarding the implementation of PURPA and requests by the utilities for significant changes to calculation of avoided cost prices. Staff of the Public Utility Commission of Oregon ("staff"), recommends some changes to the calculation of avoided cost prices and to a few of the other policies addressed in Phase I of this investigation. For the most part, however, staff concludes that the Commission should maintain its current policies related to the implementation of PURPA.

Notably, the Renewable Northwest Project ("RNP") testified that "[t]he most significant factors for encouraging diverse QF resource additions are contract length of 20 years, published rates and standard contract availability up to 10 megawatts, and certainty and notice around rate changes."[1] RNP testified that the most significant for "avoiding excess QF development, relative to utility resource needs, are sufficiency/deficiency pricing and preventing developers from aggregating QFs into large-utility scale developments.[2]

Staff recommends no changes to contract length, availability of standard rates, pricing based on sufficiency and deficiency periods, and the policies that provide certainty and

[1] RNP/100, Lindsay/4.

[2] RNP/100, Lindsay/4.

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predictability to rate changes. Staff does recommend modifications to the calculation of standard avoided cost prices, the frequency of standard avoided cost price updates, as well as to the definition of a single qualifying facility ("QF") for purposes of eligibility for standard prices.

Issue 1.A. What is the most appropriate methodology for calculating avoided cost prices?

1. The Commission should retain the current methods for calculating standard avoided cost prices and standard renewable avoided cost prices with some modifications.

The Commission should retain its current methodologies for calculating standard avoided cost prices (the "Standard Method") and standard renewable avoided cost prices (the "Renewable Method") with modifications to account for the capacity contribution of different QF resource types; integration costs, both avoided and incurred; and third-party transmission costs to move QF energy out of a load pocket. Currently, standard avoided cost prices (both renewable and non-renewable) are based on the utility's costs to avoid a proxy resource when the utility is resource deficient and is based on monthly on-peak and off-peak forward price curves when the utility is resource sufficient. With a few exceptions, standard avoided cost prices are not designed to account for the value (negative or positive) attributable to the characteristics of QF energy.[3]

PacifiCorp, Portland General Electric Company ("PGE"), and Idaho Power Company ("Idaho Power") assert that because standard avoided cost prices do not account for the value of QF characteristics to the utilities' systems, the utilities are overpaying QFs for their energy.[4] Idaho Power and PGE assert that they are purchasing large amounts of QF energy

[3] OPUC Order No. 05-584 at 39.

[4] PAC/100, Dickman/4-5; Idaho Power/100, Grow/2; PGE/100, Macfarlane-Morton/6-7.

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and that the magnitude of the QF energy purchased at standard avoided cost prices is harming ratepayers. [5] PGE explains,

> The current 10 MW eligibility cap requires utilities to purchase the vast majority of QF energy through standard avoided cost contracts, which do not account for the actual costs avoided by the utility for the specific resource being purchased. In particular, the stranded avoided costs do not account for integration costs, the intermittent nature of the generation, the timing of the generation, or its usefulness for serving load. As a result, utility customers are paying far more for QF power than the cost that is actually avoided by the utility.[6]

The utilities recommend lessening the impact of this mismatch on ratepayers by limiting the availability of standard avoided cost prices and greatly expanding the use of negotiated avoided cost prices.[7] The utilities reason that since the specific characteristics of a QF are taken into account in negotiated contracts with non-standard avoided cost prices the utilities can largely correct the overpayments to QFs on a contract-by-contract basis.[8] They acknowledge that the mismatch would still exist under standard contracts, but assert that the harm to ratepayers is significantly lessened because the mismatch would only be for a small amount of the QF power purchased in Oregon.[9]

Staff agrees that the mismatch between the value of QF energy to the utilities' systems and the payments to QFs under PURPA will harm customers. Staff acknowledges that an underlying assumption of standard avoided cost prices is that the value added and costs imposed by QF characteristics offset each other to some degree. To the extent QF characteristics on balance impose costs on the utilities' systems, the benefit associated with

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[5] See Idaho Power/100, Grow/11-12; PGE/100, Macfarlane-Morton/6-7.

[6] PGE/100, Macfarlane-Morton/6-7.

[7] PAC/100, Dickman/5; Idaho Power/200, Stokes/47; PGE/100, Macfarlane-Morton/4.

[8] PAC/200, Griswold/20; Idaho Power/200, Stokes/47-55; PGE/100, Macfarlane-Morton/6-7.

[9] PAC/200, Griswold/17-18; Idaho Power/200, Stokes/55; PGE/100, Macfarlane-Morton/9.

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standard contracting should outweigh those costs.[10] However, the magnitude of the cost imposed on utilities' systems by intermittent QFs is too large to be offset by value brought to the utilities' systems by other QF characteristics. The magnitude of the mismatch means that ratepayers are being harmed.

The utilities' proposed remedy of lowering the eligibility cap for standard avoided cost prices is overbroad and would have the unintended consequence of deterring QF development in Oregon. RNP, Renewable Energy Coalition ("REC"), Community Renewable Energy Association ("CREA"), Small Business Utility Association ("SBUA"), and the Oregon Department of Energy ("ODOE") testified that lowering the eligibility cap would deter QF development in Oregon, largely due to the additional transaction costs incurred when negotiating an agreement.[11] These parties dispute the utilities' assertion that a developer of a relatively large multi-million dollar QF implicitly has sufficient resources to negotiate a power purchase agreement. For example, CREA testified that a small QF developer will likely only have access to financing (e.g., the millions of dollars) after a PPA has been signed. CREA asserts that prior to that time the developer has to rely on the developer's own financial resources.[12]

Given the potential detrimental effect that lowering the standard avoided cost price eligibility cap could have on QF development in Oregon, Staff recommends that the Commission implement a more targeted solution. Staff recommends that the Commission adopt standard avoided cost prices by QF resource type to account for each resource type's capacity contribution to the purchasing utility's peak load. Staff also recommends that the Commission allow an offset to avoided cost prices when utilities incur costs to integrate

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[10] See Order No. 05-584 at 38-39.

[11] Coalition/200, Schoenbeck/19; RNP/100, Lindsay/5-6; ODOE/200, Elliot/2; SBUA/100, Price/5; CREA/100, Hilderbrand/11-13.

[12] CREA/100, Hilderbrand/11.

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power from a wind QF into their systems. (Staff also recommends that the Commission expressly include avoided costs to integrate intermittent resources in the calculation of standard avoided cost prices when these costs are avoided.)

While utilities prefer their proposed solution and the other interveners prefer no capacity adjustment to the calculation of standard avoided cost prices, only PacifiCorp and CREA raise substantive concerns regarding staff's proposed capacity contribution adjustment.

Because staff's proposal significantly addresses the potential harm of the mismatch between value of the QF energy and standard avoided cost prices without limiting the availability of standard avoided cost prices, staff recommends that the Commission adopt staff's proposed adjustments and leave the eligibility cap for standard avoided cost rates at 10 MW. If the Commission declines to adopt staff's proposed adjustments to the calculation of standard avoided cost prices, staff recommends the Commission lower the eligibility cap for standard avoided cost prices to 3 MW.

2. The Commission should allow the utilities to use model-based methodologies as a starting point for non-standard avoided cost prices for QFs larger than 10 MW.

In connection with their proposal to reduce the eligibility cap for standard avoided cost rates, PacifiCorp, PGE, and Idaho Power ask for approval of methodologies to calculate non-standard avoided cost prices. Several parties oppose PacifiCorp's and Idaho Power's proposed model-based methodologies on the ground they are complex and opaque. ODOE opposes the use of the PacifiCorp's present value revenue requirement differential model on the ground it undervalues the QF energy in certain periods.[13]

Staff agrees that the methodologies are an inappropriate substitute for standardized rates for smaller utilities because they are hard to understand and non-transparent. Staff does

[13] ODOE/100, Carver/7.

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not oppose using these methodologies to calculate non-standard negotiated rates for QFs over 10 MW and QFs under 10 MW that elect non-standard rates.

I.A.ii. Should the methodologies be the same for all three electric utilities operating in Oregon?

Staff recommends that the Commission require all three utilities to use the same method to determine standard avoided cost prices, except that Idaho Power should not use the Renewable Method because Idaho Power is not subject to the Renewable Portfolio Standard ("RPS").

Staff does not recommend that the Commission treat Idaho Power differently than PGE and PacifiCorp by lowering the standard avoided cost eligibility cap for QFs interconnecting with Idaho Power. Idaho Power asserts that lowering the eligibility cap to 100 kW as the Idaho Public Utility Commission did will be administratively efficient and will prevent QFs from forum shopping. Allowing Idaho Power to substitute negotiated non-standard avoided cost prices for standard avoided cost prices for all QFs larger than 100 kW does not obtain administrative efficiencies. Under the Staff's proposal, most of Idaho Power's power purchase agreements with QFs would be based on costs determined every two years and updated annually, as opposed to being based on costs determined on a case-by-case basis as in Idaho.

Issue 1.B. Should QFs have the option to elect avoided cost prices that are levelized or partially levelized?

In Docket No. UM 1129, the Commission considered a proposal to levelize prices and declined to do so. The arguments in favor of levelized prices presented in that docket remain the same in this docket.[14] Proponents of levelized pricing assert that levelizing the prices will improve the ability of QFs to obtain financing and to repay loans in the early

[14] Order No. 05-584 at 23-28.

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years of a contract. Opponents argued that levelized prices shift risk to utility ratepayers. The Commission declined to allow levelized pricing in Docket No. UM 1129.[15]

Staff agrees that levelization does benefit QFs. However, the benefit comes at a cost, increased risk borne by ratepayers. A policy that requires utility ratepayers to assume additional risk for the benefit of QFs is inconsistent with Federal Energy Regulatory Commission ("FERC") rules implementing PURPA, which are intended to leave ratepayers indifferent between purchases under PURPA and purchases outside of PURPA.

Issue 1.C. *Should QFs seeking renewal of a standard contract during a utility's sufficiency period be given an option to receive an avoided cost price for energy delivered during the sufficiency period that is different than the market price?*

A QF electing to renew a PURPA power purchase agreement at standard avoided cost prices should not receive a price adder if the QF renews its contract during a utility's sufficiency period. A price adder would shift risk to ratepayers, which is inconsistent with the principle of ratepayer indifference.[16]

Issue 1.D. *Should unused pricing options be eliminated?*

The unused pricing options complicate the avoided cost price schedules and the Commission should eliminate them. The unused options are: PacifiCorp's "Gas-Market Indexed" and "Banded Gas Market Indexed" pricing options and PGE's" Deadband Index Gas Price Option," the "Index Gas Price Option," and the Mid-C Index Option."[17]

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[15] Order No. 05-584 at 28.

[16] Staff/100, Bless 13-14.

[17] Staff/100, Bless/14-15. See also Idaho Power/200, Stokes/6-7; PGE/100, Macfarlane-Morton/15.

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Issue 2.A. *Should there be different avoided cost prices for different renewable generation sources?*

There should be different standard renewable avoided cost prices for different types of QFs to account for the different capacity contributions of different resource technologies. Also, costs to integrate wind QFs should be included in the calculation of avoided cost prices for wind QFs. Staff discusses these proposed modifications in response to Issue 4.A. below.

Issue 2.B. *How should environmental attributes be defined for purposes of PURPA transactions?*

The non-energy attributes of QF generation should be defined as those attributes certified under the Renewable Energy Certificate ("REC") program overseen in Oregon by ODOE.[18]

Issue 2.C. *Should the commission amend OAR 860-022-0075, which specifies that the non-energy attributes of energy generated by the QF remain with the QF unless different treatment is specified by contract?*

The Commission should not amend OAR 860-022-0075 because it is already consistent with Commission policy regarding availability of renewable avoided cost prices. A utility is entitled to the non-energy attributes of energy purchased from a QF when the QF elects the renewable avoided cost price stream and the QF is compensated for RECs associated with its energy, which occurs during the deficiency period. In order to receive payments under the renewable avoided cost price stream, the QF must agree, in contract, to deliver its RECs to the utility during the deficiency periods of the contract. Accordingly, the Commission's rule that RECs remain with QF unless otherwise specified in contract is consistent with the Commission's policy regarding availability of renewable avoided cost prices.[19]

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[18] Staff/100, Bless/17.

[19] Staff/100 Bless/17-18.

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Issue 3.A. *Should the Commission revise the current schedule of updates at least every two years and within 30 days of each IRP acknowledgment?*

The Commission should continue to require a complete update to all avoided cost price inputs within 30 days of Commission acknowledgment of a utility's IRP. However the Commission should also require utilities to annually update their standard avoided cost prices by updating the gas price forecast, the on-peak and off-peak forward market prices, the status of the production tax credit, and changes in the cost and on-line date of the proxy resource taken from the last *acknowledged* IRP update. Staff recommends annual updates on these limited factors because they are readily ascertainable and also, can significantly affect avoided cost prices. Other factors are not as readily and objectively ascertainable and accordingly, are appropriately updated after the Commission has acknowledged the utility's IRP.

Issue 3.B. *Should the Commission specify criteria to determine whether and when mid-cycle updates are appropriate?*

Issue 3.C. *Should the Commission specify what factors can be updated mid-cycle?*

Issue 3.D. *To what extent (if any) can data from IRPs that are in the late stages of review and whose acknowledgment is pending be factored into the calculation of avoided cost prices?*

The addition of annual updates should eliminate most mid-cycle update requests, so establishing criteria for when a mid-cycle update is appropriate, or establishing what factors may be updated, would have little value. Also, staff recommends that the Commission maintain flexibility to determine when the circumstances may warrant a mid-cycle update.[20]

Similarly, staff does not recommend that the Commission attempt to identify in advance when it may be permissible to use data from IRPs that are in the late stages of review. The Commission should retain flexibility to determine if, under the circumstances, it

[20] Staff/100, Bless 21.

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is appropriate to include information from an unacknowledged IRP in the calculation of avoided cost prices.[21]

Issue 3.E. *Are there circumstances under which the Renewable Portfolio Standard implementation plan should be used in lieu of the acknowledged IRP for purposes of determining renewable resource sufficiency?*

No circumstance warrants changing the Commission's policy that "[t]he IRP process [is] the appropriate venue for determining when a utility is resource sufficient or deficient."[22]

Issue 4.A. *Should the costs associated with integration of intermittent resources (both avoided and incurred) be included in the calculation of avoided cost prices or otherwise be accounted for in the standard contract? If so, what is the appropriate methodology?*

Avoided integration costs should be included in the calculation of avoided cost prices under the Renewable Method. A utility only avoids integration costs during the deficiency period.[23]

Day-ahead, hour-ahead, and within-hour integration costs that a wind QF located within a utility's Balancing Area Authority (BAA) imposes on the host utility's system should be borne by the wind QF, rather than the host utility's ratepayers. These costs should be passed through to the QF as an offset against avoided costs prices. Obviously, no such costs should be offset from avoided cost prices when the QF contracts for its own integration service or the costs of integration are not imposed on the utility's system for some other reason.[24]

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[21] Staff/100, Bless/21.

[22] Staff/100, Bless/22, *quoting* Order No. 10-488 at 8.

[23] Staff/100, Bless/28.

[24] Staff/100, Bless/28-30.

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For example, wind QFs located outside of the purchasing utility's BAA and connecting indirectly with the purchasing utility will presumably obtain hour-ahead and within-hour integration services from a third-party transmission provider. Because costs for these services will not be incurred by the utility purchasing from the QF, the QF will have no obligation to make payments for these services to the purchasing utility.[25] To the extent a wind QF in a BAA other than the purchasing utility's BAA imposes day-ahead integration costs on the purchasing utility's system, these costs are appropriately passed through to the wind QF by the purchasing utility.[26]

Staff initially proposed that solar QFs should also be responsible for costs incurred by the purchasing utility to integrate solar QFs energy and capacity. However, staff is persuaded by testimony of CREA, RNP, OneEnergy, and ODOE that it is not appropriate to pass such charges to solar QFs because the utilities have yet to conduct solar integration studies to quantify the costs and because the costs are likely to be minimal.[27] However, the utility's avoided integrated costs, which are based the cost to integrate a proxy wind plant, should be included in the calculation of avoided cost prices for any QF, including solar QFs, selecting payments under the renewable avoided cost price stream.[28]

RNP and other parties are concerned about the process for determining what charges should be assessed to wind QFs for integration services. Staff believes that stakeholders will have sufficient opportunity to examine integration costs, both avoided and incurred, in IRP proceedings and proceedings to determine avoided costs.[29]

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[25] Staff/100, Bless/29-30.

[26] Staff/200, Bless/30.

[27] Staff/200, Bless/17-18.

[28] Staff/200, Bless/18.

[29] Staff/200, Bless/17.

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Issue 4.B. *Should the costs or benefits of third-party transmission be included in the calculation of avoided cost prices or otherwise accounted for in the standard contract?*

Staff recommends including avoided third-party transmission costs in the calculation of avoided cost prices under both the Standard and Renewable Methods.

Staff also recommends that a QF be required to pay third-party transmission costs if third-party transmission is needed to move a QF's generation out of a load pocket. [30] Requiring a QF to bear responsibility for these costs is consistent with Order No. 07-360 in which the Commission discussed the allocation of costs to upgrade transmission infrastructure needed to move QF power out of a load-constrained area and costs incurred by a utility to back down more economic resources in order avoid wheeling QF power.

In Order No. 07-360, the Commission noted that the costs of transmission upgrades needed to transmit QF power are appropriately charged to the QF as part of the interconnection process. The Commission also concluded that non-standard avoided cost prices should "be adjusted if parties agree the utility will back down other resources in lieu of wheeling QF power outside of a load-constrained area."[31]

Here, the third-party transmission costs at issue are associated with an alternative to transmission upgrades or costs to back down more economic generation. Although a utility can allocate costs to upgrade transmission to a QF in the interconnection process, a utility does not have the option to include a price adder to standard avoided cost prices for the cost of backing down more economic generation to accommodate QF power generated in a load pocket or for the cost to wheel the QF power out of a load pocket. In comparison, the utility has such options when negotiating non-standard rates. The question presented in this docket is whether the Commission should allow the utility one of these options when the QF in a load pocket elects standard avoided cost rates.

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[30] Staff/100, Bless/30-31.

[31] Order No. 07-360 at 26-27.

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Staff recommends that the Commission allow a utility to net costs of third-party transmission against standard avoided cost prices for wind QFs when the utility is required to incur such costs to move QFs energy out of a load pocket. Staff acknowledges that such an adjustment is anomalous, but concludes it is warranted.

Although a utility has authority to negotiate an adder for costs of third-party transmission for non-standard rates, it does not have authority to compel a QF to negotiate non-standard avoided cost prices if that QF is eligible for standard avoided cost prices. While a QF has the ability to choose to negotiate non-standard avoided cost prices when it has characteristics that make its power more valuable to the utility than that of the utility's proxy resource, the utility does not have this choice. Further, the utility cannot control the QF's location.

A comparably inverse situation is presented when a QF locates so closely to the utility's load that is able to interconnect directly to the QF's distribution system. However, in this situation, the QF has the ability to negotiate non-standard rates with the utility in order to have the value of the QF's proximity to the utility's load (e.g., avoided line losses) included in the avoided cost prices paid to the QF. And, although a QF can locate itself so that it is able to interconnect directly to a utility's distribution system, a utility cannot require that a QF do so.

Issue 4.C. *How should the seven factors of 18 C.F.R. 292.304(3) be taken into account?*

1. **The Commission should adjust standard and standard renewable avoided cost prices to account for certain integration costs, third-party transmission costs to move QF generation out of a load pocket, and the different capacity contribution of different QF resources to the utility's peak load.**

In addition to the adjustments to standard avoided cost prices to account for costs of wind integration and third-party transmission costs to move QF generation out of a load

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pocket discussed under Issue 4.A. and 4.B., staff recommends adjusting the capacity component in standard and standard renewable avoided cost prices to capture the expected capacity contribution of each QF resource type.

For the Standard Method, staff proposes multiplying the capacity component currently embedded in the Standard method by a "capacity contribution factor," equal to the expected contribution to peak load of the specific QF resource type.[32] Currently, the assumed capacity contribution to peak load is the same one used in the utility's acknowledged IRP for the specific type of generation (wind, solar, etc.).[33] For the Renewable Method, staff proposes adjusting the capacity component implicit in the renewable on-peak price by the incremental capacity contribution of the specific QF resource, relative the avoided renewable resource.[34]

PacifiCorp opposes staff's proposed capacity contribution adjustment on the ground that it overstates renewable avoided costs relative to the proxy resource.[35] PacifiCorp explains that a base load renewable QF can choose either standard avoided costs, with capacity costs equal to a CCCT starting in 2016, or standard renewable avoided cost prices, with the full capacity costs of Pacifiorp's IRP wind resource starting in 2018, plus 95 percent of the capacity costs of a CCCT starting in 2018. PacifiCorp asserts that on a "nominal-levelized basis," the on-peak prices (which include the capacity costs) during the renewable deficiency period are \$20/MW higher than the standard prices for a baseload QF.[36] PacifiCorp's argument is not persuasive for at least two reasons.

[32] Staff/100, Bless/23.

[33] Staff/100, Bless/23.

[34] Staff/100, Bless/23.

[35] Pac/300, Dickman/20.

[36] Pac/300, Dickman/20.

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First, PacifiCorp ignores the fact that PacifiCorp is getting something of value in exchange for payments under the renewable avoided cost price stream—the renewable energy certificate ("REC")—that it does not get under the standard avoided cost price stream. Second, the potential for discrepant prices under both methods is present with or without the capacity adjustment.

CREA opposes Staff's proposed capacity contribution adjustment asserting that it is unnecessary because in aggregate, all QFs in a utility's system provide a "fairly predictable" supply of power of to the system minimizing the need for a capacity adjustment to close the gap between the value of QF energy and capacity to the utility's system and the proxy resource.[37]

Staff disagrees with CREA's assertion that the mismatch between the value of the capacity contribution of each QF resources and that of the proxy resource is generally a wash when the energy and capacity of QFs is considered in aggregate.[38] Most of the QF energy in the utilities' systems is from wind QFs. Accordingly, the capacity contribution of each utility's QFs in aggregate will never be essentially equivalent to the proxy resource underlying the standard non-renewable rate.

CREA's assertion that Staff's proposal adds too much complexity and opportunity for gaming is premature. Staff has recommended that each utility determine the capacity contribution of each QF resource type in its integrated resource plan ("IRP"). Stakeholders and the Commission will have opportunity in those processes to select a method for determining the capacity contribution of each QF that minimizes any opportunity for gaming. In any event, as explained by staff in its testimony, it is possible to select a method for determining the capacity contribution of a QF resource that is transparent and not complex.[39]

[37] CREA/200, Reading/23.

[38] See CREA/400, Hilderbrand/6, referring to CREA/200, Reading/28.

[39] Staff/200, Bless/4.

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PGE does not oppose Staff's proposed capacity contribution adjustment, but recommends that if the Commission adopts Staff's proposed adjustment, it remove on- and off-peak differential pricing under the Renewable Method.[40] PGE asserts that including both the capacity contribution adjustment and on- and off-peak differential pricing would overcompensate QFs under the renewable avoided cost price stream because 1) PGE's on- and off-peak differential is based on its AURORA model, which provides hourly prices for marginal resources and capacity is sometimes included in that marginal resource; 2) the QF is likely to receive compensation for integration; and 3) in the traditional avoided cost model, the on- and off-peak price differential is based on capacity.

Staff disagrees. On-peak and off-peak differential pricing captures more than just a capacity component. Any potential for double-counting the value of capacity does not warrant eliminating the on- and off-peak pricing differential.

2. The Commission should decline to adopt any other price adjustments to the calculation of standard avoided costs.

Other than the adjustments for the value of different capacity contributions of different resource types and to account for incurred (and avoided) integration costs, and third-party transmission costs to transmit QF energy out of a load pocket, staff does not recommend adjustments to the method for calculating standard avoided cost prices ("Standard Method") or the method for calculating standard renewable avoided cost prices ("Renewable Method"). As discussed above, staff acknowledges that characteristics of individual QFs may provide value to the purchasing utility's system that is not captured by avoided cost payments. However, no party identified a characteristic that applies to all QFs, or even a QF resource type, for which an easily quantifiable adjustment to all standard rates should be made.

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[40] PGE/300, Macfarlane-Morton/20.

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Further, QFs have individual characteristics, other than those addressed by staff's proposed capacity contribution and wind integration cost adjustments that reduce the value of the QF's capacity and energy to the purchasing utility's system. These characteristics and those that add value to the utility's system offset each other, decreasing the need for adjustments to the Standard and Renewable Methods to account for the seven factors of 18 C.F.R. §292.304(e)(2).

OneEnergy and CREA recommend that the Commission modify the calculation of prices under the Standard and Renewable Methods to capture benefits associated with deferral of capacity investment. OneEnergy also recommends that the Commission allow QFs receiving standard avoided cost rates to receive an upward price adjustment for opting into a curtailment program.

Finally, OneEnergy urges the Commission to recognize the value of distributed generation with special provisions for QFs 3 MW and smaller that are directly connected to the purchasing utility's distribution system by 1) increasing the standard avoided cost rate to account for avoided system losses, 2) allowing fixed prices for up to a 25-year term, and 3) allowing levelized rates.[41]

The adder for deferred capacity investment proposed by OneEnergy and CREA is unnecessary. The capacity component currently included in the on-peak avoided cost prices already provides QFs with credit for avoided utility investments in capacity. In Docket No. 1129, staff and ODOE recommended that the Commission incorporate the value of incremental capacity additions that QFs bring to the utilities' systems. In OPUC Order No. 05-584, the Commission noted "[s]taff and ODOE also identify advantages to incremental capacity added by QFs, rather than the lumpy capacity being added by new utility plant."[42]

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[41] OneEnergy/100, Eddie/6, 10-15, 22.

[42] Order No. 05-584 at 23.

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In that docket, staff recommended that when utilities are in a resource-surplus position the Commission should establish a "market-based" value for avoided capacity costs.[43]

The Commission agreed with staff and adopted the on- and off-peak pricing differential for market-based purchases during the utilities' sufficiency periods. The Commission noted that this approach "embeds the value of incremental QF capacity in the total market-based avoided cost rate.[44] Staff's proposed capacity contribution adjustment refines the credit for incremental capacity by taking into account the different capacity contributions of different types of QFs during the utilities' resource deficiency periods. [45]

Furthermore, the methodology that OneEnergy suggests to value the benefit of deferred capacity is not apposite. OneEnergy suggests using PacifiCorp's method for modeling resource deferral benefits from Class 2 demand side management ("DSM") to quantify the benefits of deferred capacity investment from QFs.[46] However, DSM directly reduces capacity investments because the DSM has the greatest effect precisely at periods of peak load and at the exact location of the load. Some QFs may have these characteristics, but intermittent QFs located away from load will not.[47] Although small incremental amounts of DSM have been shown to provide deferred capacity benefits and a hedge value in integrated resource planning, Staff is not convinced that long-term QF contracts have the same attributes as DSM. Staff believes this issue should be examined more thoroughly in utility IRPs before making an adjustment to PURPA pricing

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[43] Id.

[44] Id.

[45] Staff/200, Bless/10-11.

[46] OneEnergy/100, Eddie/10-15.

[47] Staff/200, Bless/11.

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OneEnergy's proposal to allow QFs to negotiate an adder for voluntary curtailment is inconsistent with 18 C.F.R. 292.304(2). This statute allows different standard rates for different resource types. It does not allow a different standard rate for resources willing to voluntarily curtail.

Finally, Staff opposes OneEnergy's proposal to carve out a standard avoided cost price and special contracting provisions (levelized rates and 25-year contract) for QFs under 3 MW connected directly to a utility's distribution system. First, OneEnergy has not shown the value of these QFs energy warrants levelized or partially levelized rates and the option for a 25-year contract. Second, a QF directly connected to a utility's distribution system has the option to ask for a negotiated avoided cost price that takes into account the value of the distributed generation. Given this, and the relatively small impact of OneEnergy's proposal, staff does not believe a standard rate for small distributed generation QFs is warranted.

In reply testimony, RNP testified that if the Commission adopts Staff's proposed modifications to the calculation of prices under the Standard and Renewable Methods, it should also adopt OneEnergy's proposals or make other modifications to its PURPA policies such as allowing levelizing rates or longer contract terms, or all of the above.[48] RNP asserts that such modifications are necessary to counter-balance Staff's proposed adjustments.[49] Staff disagrees. Staff's proposed capacity contribution adjustment does not work strictly for the benefit of either QFs or utilities and their ratepayers. It is not necessary to adopt modifications that are favorable to the QFs in order to counter-balance staff's recommended modifications. Staff's proposal to assign certain integration costs to wind QFs is offset by the fact they will receive avoided integration costs during the deficiency period, when those costs are avoided.

[48] RNP/200, Lindsay/7-8.

[49] RNP/200, Lindsay/8.

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OneEnergy recommends that the Commission modify the Standard Method to include the cost of gas supply infrastructure expansions and electricity transmission expansions necessary to fully utilize the proxy resource and modify the Renewable Method to include costs associated with new transmission necessitated by the construction of the IRP renewable resource.[50] CREA also recommends that the Commission include the cost of avoided transmission construction in the calculation of avoided cost prices.[51]

Staff supports including avoided transmission costs in the calculation of avoided cost prices to the extent they are modeled into the cost of the proxy resource in the utility's IRP.[52] Staff also supports OneEnergy's proposal to include the avoided costs of upgrades to the bulk electric and gas transportation systems, when these costs are included in the costs of the proxy resource in the IRP.[53] To this end, staff supports OneEnergy's recommendation that the Commission direct the utilities to study the potential costs of needed upgrades to the gas transmission system, to the extent such studies would be conducted in the utilities' IRPs.[54]

Issue 5.A. *Should the Commission change the 10 MW cap for the standard contract?*

For the reasons discussed above, the Commission should not reduce the 10 MW cap for standard avoided cost prices.

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[50] OneEnergy/100, Eddie/23-33.

[51] CREA/100, Reading/20.

[52] Staff/200, Bless/5.

[53] Staff/200, Bless/5.

[54] Staff200, Bless/6.

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Issue 5.B. *What should be the criteria to determine whether a QF is a single QF?*

Staff originally recommended retaining the criteria of the partial stipulation of Order No. 06-538 in their current form, with no changes. However, Staff agrees with PacifiCorp's proposal to allow only independent or community-based projects to have a common passive investor. [55]

Issue 6.B. *When is there a legally enforceable obligation?*

Staff recommends that this issue be deferred to the second phase of the investigation so that the contracting process can be reviewed holistically.

Issue 6.I. *What is the appropriate contract term? What is the appropriate term and duration for the fixed portion of the contract?*

Staff recommends no change to the current term of the standard contract, which is 20 years, and no change to the term of the fixed portion of the contract, which is fifteen years.

Issue 6.E. *How should contracts address mechanical availability?*

Staff testified that each utility should be allowed to propose a reasonable combination of mechanical availability percentage, planned maintenance allowance, and penalty for failure to meet the guarantee. [56] However, the penalty for failure to meet the mechanical guarantee should not contract termination, but should be a monetary penalty that is based on actual net replacement power costs for the incremental unavailable hours that exceed the aggregate annual mechanical unavailability limit for all turbines.[57]

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[55] Staff/200, Bless/25, *citing* Pac/200, Griswold/24.

[56] Staff/200, Bless/28.

[57] Staff/100, Bless/45-46.

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CONCLUSION

Staff recommends that the Commission adopts its proposals regarding PURPA implementation.

DATED this 17th day of June 2013.

Respectfully submitted,

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CERTIFICATE OF SERVICE/SERVICE LIST

I hereby certify that on June 17, 2013, I served the foregoing STAFF POST-HEARING MEMORANDUM upon the persons named on the service list, by electronic mail only as all parties have waived paper service.

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