

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2000

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON,

Investigation into PURPA Implementation.

**PORTLAND GENERAL ELECTRIC
COMPANY'S COMMENTS ON STAFF'S
STRAW PROPOSAL AND PHASE 1
ISSUES**

I. INTRODUCTION

Pursuant to Staff's Phase 1 Schedule Update Announcement, Portland General Electric Company (PGE or the Company) offers comments regarding Staff's Straw Proposal for calculating avoided cost prices (Straw Proposal),¹ stakeholder comments before and during the Phase 1 Workshop on April 24, 2024,² and PGE's proposals regarding Phase 1 Issues. PGE appreciates the opportunity to file these comments and the ongoing efforts of Staff and the Public Utility Commission of Oregon (Commission) to develop a modernized process for calculating avoided cost prices. The Company generally agrees with the scope of issues identified in Staff's Straw Proposal, but PGE offers alternative proposals for addressing many of the issues.³

At the outset, PGE emphasizes the importance of developing a process for Phase 2 that recognizes the interrelated nature of the issues identified in this docket and includes sufficient time and opportunity to fully understand and respond to each proposal. While PGE agrees with Staff that the Commission will need to balance precision and simplicity in adopting a pricing

¹ Docket UM 2000, Staff's Phase 1 Proposal (Mar. 7, 2024).

² Docket UM 2000, Presentation from the Phase 1 Proposal Workshop (Apr. 24, 2024).

³ These comments reflect PGE's initial assessment of Staff's proposal and recommendations for alternatives. PGE's lack of comment on a specific aspect of Staff's proposal does not signify PGE's agreement with the proposal. Further, PGE reserves the right to alter its recommendations as the scope and details of parties' proposals become better defined.

methodology,⁴ the appropriate balance will likely depend on how related issues are resolved. For example, the longer the fixed price term and the higher the eligibility threshold for standard avoided cost prices,⁵ the greater the risk that customers will face impacts from inflated or stale pricing and the more imperative it is to model standard pricing accurately. When finalizing Staff's Phase 1 proposal and developing the Phase 2 process, PGE encourages Staff to recognize the nexus between the issues under consideration and to take into account the connections between issues and the significant role these connections play in the customer impact of any avoided cost pricing methodology.

II. DISCUSSION

A. **PGE Has Concerns About Requiring Utilities to Develop a Large Number of Separate Price Streams.**

Staff proposes that utilities offer hybrid, solar, wind, and baseload price streams and develop additional resource classes upon request if there is a five percent or greater difference in capacity contribution due to features such as configuration or geography.⁶ At the workshop, utility representatives informed Staff that, in their experience, capacity contribution percentages for different resources change based on a number of variables and that such a proposal could be overly complex and burdensome to implement if it results in a significant number of new price streams. For example, it appears very likely that the following list of resource configuration variables would lead to a five percent or greater change to a capacity contribution forecast: resource location, solar

⁴ Docket UM 2000, Staff's Phase 1 Proposal at 1.

⁵ Some stakeholders are proposing a fixed price term longer than 20 years with an eligibility cap at 20 megawatts (MW). Staff proposes that all resource classes be eligible for standard pricing up to 10 MW, but does not propose a change to the fixed price term. *See* Docket UM 2000, Staff's Phase 1 Proposal at 4.

⁶ Docket UM 2000, Staff's Phase 1 Proposal at 2.

resource AC/DC ratio, hybrid resource generation/storage ratio, solar panel orientation and tracking technology, solar hybrid AC- versus DC-coupled designs, and storage duration.

Given the number of variables that can affect capacity contribution, PGE could potentially need to model and produce results for hundreds of different configurations, which would be unduly burdensome. Moreover, it is not clear that a five percent difference in capacity contribution would result in a significant change to avoided cost prices because capacity contribution is only one input to the modeling. While Staff's proposal may result in a relatively limited incremental improvement in accuracy and addresses concerns about differing qualifying facility (QF) characteristics, it will be necessary to balance the increased accuracy with the burden of this approach, and PGE recommends exploring the extent to which small changes in effective load carrying capability (ELCC) affect pricing over the term of the QF contract. PGE also notes that a different approach to ensuring accuracy without creating numerous price streams would be to require resources larger than 100 kilowatts (kW) whose capacity contribution differs significantly from the proxy resource for an established price stream to negotiate its avoided cost pricing. PGE would support lowering the standard-pricing threshold to increase accuracy, but does not support Staff's proposal to raise it.

B. PGE Recommends Retaining the Sufficiency/Deficiency Demarcation and Proposes Modifications to the Existing Methodology.

Staff proposes replacing the sufficiency/deficiency demarcation with a fixed ramp-in to reflect the expected ongoing procurement of non-emitting resources.⁷ PGE opposes this approach because it is divorced from any actual assessment of utility need and therefore appears not to comply with the Public Utility Regulatory Policies Act's (PURPA) avoided-cost requirements. Instead of having a standard ramp-in, PGE recommends that the deficiency period be set

⁷ Docket UM 2000, Staff's Phase 1 Proposal at 2.

specifically for each resource type and be based on when the utility next plans to acquire that specific resource type. For example, PGE would not be considered deficient for solar resources if the Company is not planning to acquire solar resources. PGE's proposed method for determining sufficiency/deficiency is more accurate than the current approach of setting the same deficiency date for all resource types or Staff's proposed approach to eliminate the sufficiency/deficiency demarcation and use a standard ramp-in. PGE's proposal ensures that the utility is not required to pay deficiency period prices for a type of resource it does not need, and conversely, ensures that a QF bringing a needed resource type is compensated for helping fill that need.

Staff's approach to ramp up capacity payments to reflect ongoing procurement is also problematic in that it assumes utilities will always be acquiring resources, which may be true for PGE in the near-term but will not necessarily be true forever. The methodology adopted in this docket could be in place for decades into the future; accordingly, the Company advises against baking in assumptions based on near-term circumstances and instead supports a methodology that can adapt to changing circumstances. In the near-term and medium-term, PGE expects to continue procuring renewable resources. However, the trends and policies in the industry remain volatile. In the event that PGE is ordered to pause procurement due to House Bill (HB) 2021's cost cap, it is important that PGE's PURPA implementation also allows for deferment of PGE's deficiency period while remaining compliant with the requirements of federal law.

C. For Accurate Deficiency Period Pricing, PGE Recommends Using Multiple Avoided Cost Proxy Resources Based on Best Available Information.

During the deficiency period, PGE proposes to use multiple proxy resources—for wind, solar, solar/battery energy storage system, and renewable baseload—rather than a single proxy as is done currently. Using multiple proxy resources will result in more accurate prices than the current approach of isolating energy and capacity prices from one resource type (e.g., a wind

resource) and then adjusting the price to account for the characteristics of a different resource type (e.g., a solar resource). The current adjustment process does not account for all of the differences between the resource types and the unique values provided by some resource types. Importantly, the existing adjustment process and the adjustment process proposed by Staff easily allow for an outcome that is in conflict with avoided cost requirements. Beginning with a given proxy resource's price (e.g., a wind resource) and adjusting that price to account for the characteristics of a fundamentally different alternative proxy (e.g., a solar resource) by relying on abstract resource valuation adjustments (e.g., a difference in assumed capacity value) could easily result in QF prices that exceed the demonstrated cost of the alternative proxy resource due to the inaccuracy and conceptual misapplication of the resource value adjustment. Therefore, the most accurate way to determine the avoided cost of any specific QF generation technology is to directly estimate the utility's cost to procure the specific generation technology.

To determine the proxy resource characteristics for each price stream, PGE proposes to use either request for proposal (RFP) shortlist bid values for a like resource if available, or the most recent integrated resource plan (IRP) where data from a recent RFP is not available. The RFP or IRP resource price would be used holistically rather than broken into separate energy and capacity components.⁸ Recent RFP data for the same resource type represents the best available information regarding the costs that a QF resource allows the utility to avoid. The RFP represents the cost of acquiring a new resource in the market and includes the effects of competition, whereas the IRP information does not account for competitive effects and may be significantly outdated by the time it is used in avoided cost pricing.

⁸ Some adjustment to the price may be necessary—for example, if the RFP resource provides renewable energy credits (REC) but the Commission determines QFs should not have to transfer their RECs.

D. PGE Recommends a Delivered Nodal Price for the Sufficiency Period Energy Payment.

During the sufficiency period, PGE proposes that QF payments include floating index energy payments commensurate with output. The payment would be determined based on the node at which the QF delivers. This sends more precise signals about what provides value to the system by ensuring that the pricing accurately reflects the costs and benefits of receiving QF energy at that particular location at the time it is delivered.⁹ PGE's proposal would be much more accurate than Staff's proposal to use the avoided resource energy value for the entire term.

E. PGE Has Concerns About the Proposed Small Scale Renewable (SSR) Adder.

While the details of Staff's "simple SSR compliance adder" for projects smaller than 20 MW are not yet known, PGE has concerns with both the legal and factual premises of this proposal. First, to comply with PURPA, any adder must be based on an actual cost that PGE is avoiding by purchasing from small-scale renewable resources.¹⁰ Second, PGE's experience has shown that the existence of PURPA standard avoided cost prices already encourages small-scale renewable generation. Of the 69 QF contracts that PGE currently has online, 68 are projects smaller than 20 MW. Therefore, it is not clear that utility customers should be required to pay for an "adder" to further incentivize such projects.

⁹ See 18 CFR 292.304(d)(2) ("[A] state regulatory authority or nonregulated electric utility may require that rates for purchases of energy from a qualifying facility pursuant to a legally enforceable obligation vary through the life of the obligation, and be set at the electric utility's avoided cost for energy calculated at the time of delivery[.]").

¹⁰ See *S. Cal. Edison Co. San Diego Gas & Elec. Co.*, 71 FERC P 61,269, 62,080, 1995 FERC LEXIS 1061, *26-27 (June 2, 1995) (holding that states "may not set avoided cost rates . . . by imposing environmental adders or subtractors that are not based on real costs that would be incurred by utilities" as "[s]uch practices would result in rates which exceed the incremental cost to the electric utility and are prohibited by PURPA").

F. PGE Recommends that Renewable Energy Credits (RECs) Continue to Transfer to the Utility When Avoided Cost Prices are Based on a Proxy Resource That Produces RECs.

PGE supports Staff's proposal to eliminate the distinction between renewable and non-renewable rates in recognition that purchases from QFs are avoiding non-emitting resource procurement.¹¹ Staff also proposes to allow the seller to negotiate its own price for the sale of RECs to the utility.¹² Staff has not provided any rationale for why utility customers should pay additional costs for RECs that are associated with the renewable energy purchased at a standard avoided cost price during the fixed price term. That is, if as Staff proposes, there are no longer renewable and non-renewable avoided cost rates and QFs are instead paid avoided cost rates based on a renewable proxy resource that produces RECs, then there is no reason why the RECs would not transfer to the utility. Accordingly, PGE recommends that current practice be retained and that RECs transfer to the utility whenever the utility is paying deficiency-period avoided cost prices based on a proxy resource that would provide the utility with RECs.

G. The Company Requests Clarification on Staff's Deliverability Proposal.

PGE requests clarification on Staff's proposal to incorporate transmission build out into cost assumptions for avoided cost pricing. In particular, in Staff's Phase 1 Workshop presentation, Staff states that "cost assumptions for the avoided resource must reflect the avoided resource's proportional share of transmission build out estimated in the IRP preferred portfolio."¹³ In response to questions at the workshop, Staff seemed to suggest that its proposal stemmed from docket UM 2032 and that Staff sought to consider whether to account for avoided deliverability costs in standard avoided cost rate calculations differently than was done in the past or to ensure

¹¹ Docket UM 2000, Staff's Phase 1 Proposal at 2.

¹² Docket UM 2000, Staff's Phase 1 Proposal at 3.

¹³ Docket UM 2000, Presentation from the Phase 1 Proposal Workshop at 9; *see also* Docket UM 2000, Staff's Phase 1 Proposal at 3.

that standard avoided cost rates reflect transmission capacity constraints. But Staff further noted that its proposal was not limited to avoided network upgrade costs.

Despite the questions posed during the workshop, the scope of Staff's proposal largely remains unclear, and PGE requests that Staff provide further clarity on its recommendation, including how its proposal sends more precise signals to encourage transmission expansion required to acquire the resources identified in the utilities' resource strategies.¹⁴ PGE notes that many transmission constraints in the West are so major that one, or even many, small QFs will not avoid the necessary transmission upgrades. Further, transmission constraints are by nature location-specific, and any methodology accounting for such constraints must ensure that a QF is not being paid to avoid a constraint if the QF's chosen location actually exacerbates the issue or worsens a different constraint. PGE looks forward to more information regarding Staff's proposal.

III. CONCLUSION

PGE appreciates the opportunity to comment on Staff's proposal for updating the methodology for calculating avoided cost prices and to provide an overview of PGE's own recommendations. The Company looks forward to further discussion of the issues raised in these comments in Phase 1.

¹⁴ Docket UM 2000, Staff's Phase 1 Proposal at 1 ("Staff's goals in developing the proposal include... [s]ending more precise signals about what provides value to the utility system and its users, which includes... [r]ecognizing the transmission expansion required to acquire the resources identified in the utilities' resource strategies[.]").

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McDOWELL RACKNER GIBSON PC

Jordan Schoonover

Jordan R. Schoonover
McDowell Rackner Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205
Email: jordan@mrg-law.com
dockets@mrg-law.com

Erin Apperson
Managing Corporate Counsel
Portland General Electric Company
121 SW Salmon St., 1 WTC-1301
Portland, OR 97204
Email: Erin.Apperson@pgn.com

*Attorneys for Portland General Electric
Company*