

May 15, 2024

***VIA ELECTRONIC FILING***

Public Utility Commission of Oregon  
201 High Street SE, Suite 100  
Salem, OR 97301-3398

Attn: Filing Center

**Re: Docket UM 2000— PacifiCorp’s Comments on Staff’s Phase 1 Proposal**

PacifiCorp d/b/a Pacific Power (PacifiCorp or the Company) appreciates this opportunity to respond to the Public Utility Commission of Oregon (Commission) Staff’s Phase 1 Proposal for calculating avoided cost prices (Straw Proposal).<sup>1</sup> The Company addresses several areas of support, concern, and alternative recommendations for the Staff’s consideration.

**1. Issue A.1 - Standard Avoided Cost Price Streams**

**Staff Proposal:** Price streams will include:

- Hybrid (renewable + storage)
- Solar
- Wind
- Baseload
- Anything else that results in a 5% difference in capacity contribution at the request of Staff or a stakeholder e.g., tracking v fixed solar<sup>2</sup>

Staff proposes to eliminate the distinction between renewable and non-renewable rates in recognition that purchases from [qualifying facilities (QF)] are avoiding non-emitting resource procurement moving forward. Staff also proposes to introduce a hybrid resource class based on the characteristics of a solar + storage resource. To maintain flexibility, Staff proposes that utilities develop additional resource classes upon request if there is a 5% or greater difference in capacity contribution due to features such as configuration or geography.<sup>3</sup>

PacifiCorp strongly supports Staff’s recommendation to eliminate the distinction between renewable and non-renewable rates, and supports separate avoided cost pricing streams based on the generation resource type, including renewable hybrid (e.g., solar/battery energy storage system), solar, wind, and renewable baseload resources. As the Company has discussed with the Commission on multiple instances in recent years,<sup>4</sup> the current methodology can lead to counter-

<sup>1</sup> Docket UM 2000, Staff’s Phase 1 Proposal (Mar. 7, 2024) (Straw Proposal).

<sup>2</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 4.

<sup>3</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 2.

<sup>4</sup> See, e.g., *In the Matter of PacifiCorp’s Schedule 37 Information*, Docket UM 1729, PacifiCorp’s Motion for Emergency Interim Relief (Apr. 26, 2018) (indicating inverted renewable and non-renewable standard avoided cost rates).

intuitive results that can increase customer rates. PacifiCorp appreciates Staff's proposal, which would eliminate this concern going forward.

And while PacifiCorp generally supports four price streams (hybrid, solar, wind, and renewable baseload), PacifiCorp does not believe it is necessary to identify additional resource classes based on a five percent or greater difference in capacity contribution at this time. In PacifiCorp's view, rather than focusing on differences in capacity contributions across resource types, the more relevant metric is whether the overall avoided cost price is materially different for different resource types. It is possible that a greater than five percent difference in capacity contribution would not translate into a materially different avoided cost price for a particular resource type. Given the administrative burden of developing additional resource-specific avoided cost prices, new avoided cost price streams should be developed only if the new prices are materially different from the prices already available. Non-standard avoided costs may also be a more appropriate mechanism to account for geographic and technological differences that are not broadly applicable.

Additionally, because Staff's proposal would create distinct avoided cost price streams for virtually all of the existing standard QF generation resources (hybrid, solar, wind, and renewable baseload), there is no urgency to resolve this issue at this time. Instead, Staff should revisit this issue when there is evidence or a demonstrated need for additional price streams.

## 2. Issue A.2 – Size Eligibility

<b>Staff Proposal:</b> Standard pricing available up to 10 MW for all resources. <sup>5</sup>
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PacifiCorp supports the current standard QF eligibility thresholds, where solar and solar-plus-storage QFs are eligible for standard avoided cost prices if they are 3 MW or less. Increasing the eligibility threshold to 10 MW for these resources shifts unreasonable risk to customers by allowing more and larger QFs to obtain less accurate standard avoided cost pricing. Non-standard pricing is more accurate, because it considers the specific characteristics of each QF (such as location and generation profile) and uses more up-to-date inputs, as opposed to standard rates that rely on data that could be 12 to 15 months out-of-date.

Instead, Staff should retain the current eligibility thresholds. This would avoid the additional customer harms that result from less accurate standard avoided cost pricing, and importantly, would be consistent with Oregon Legislative Assembly efforts from 2023, which recently rejected increasing the eligibility threshold for standard avoided cost rates for all resources to 10 MW.<sup>6</sup>

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<sup>5</sup> Docket UM 2000, Staff's Phase 1 Proposal at 4.

<sup>6</sup> See, e.g., 82nd Oregon Legislative Assembly, 2023 Regular Session, HB 3055 A-Engrossed, available at <https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/HB3055/A-Engrossed> (referred to Senate Energy and Environment Committee; not enrolled).

### 3. Issue A.3 – Standard Pricing Term

**Staff Proposal:** No change to the standard pricing term.<sup>7</sup>

Under the current rules, QFs have the unilateral right to select a purchase period of up to 20 years for a standard power purchase agreement (PPA). QFs electing to sell firm output at fixed prices have the unilateral right to a fixed-price term of up to 15 years, subject to a reduction for a development period that exceeds three years.<sup>8</sup>

PacifiCorp agrees with Staff and does not believe changes to the QF contract term are necessary at this time. The Company is always willing to entertain longer-term offers for resources and move forward with those that are in the best interest of customers. Nothing precludes a potential QF from making these offers in a formal request for proposal (RFP), or outside an RFP during the course of negotiating a specific QF contract.

### 4. Issue B.1 – Capacity Contribution Methodology

**Staff Proposal:**

New QF

- [Effective Load Carrying Capability (ELCC)]
  - For hybrid: ELCC calculated in premium peak hours only
- Capturing change over time, modelled in years 1, 5, 10, 15.
- Last in
- Portfolio tuned to reliability metric

Renewing QF:

- No ramp-in
- Renewing QF removed from portfolio when calculating capacity contribution
- Otherwise treated as a new QF<sup>9</sup>

Staff proposes the following provisions to reflect the capacity contribution of a QF in a changing system:

- i. Capturing the capacity contribution over the life of the resource by moving away from a snapshot ELCC.
- ii. Replacing the sufficiency/deficiency demarcation with a fixed ramp-in to reflect the expected ongoing procurement of non-emitting resources, while acknowledging that the driver of the procurement is not an energy or capacity shortage.
- iii. Moving toward a more realistic capacity resource, that is non-emitting and deliverable to Oregon customers.
- iv. Aligning compensation with the role the resource is expected to play in the utility's reliable, decarbonized resource portfolio by using a last-in ELCC tuned to a realistic and reliable system.

<sup>7</sup> Docket UM 2000, Staff's Phase 1 Proposal at 4.

<sup>8</sup> OAR 860-029-0120(2).

<sup>9</sup> Docket UM 2000, Staff's Phase 1 Proposal at 4.

- v. Sending signals to incent hybrid resource dispatch when it's most useful through a pay as you go premium peak approach.<sup>10</sup>

The Commission considered and established best practices for calculating capacity contribution in docket UM 2011,<sup>11</sup> but it is not clear whether Staff's Straw Proposal accounts for that decision, and if so, how Staff plans to align best practices from that decision with recommendations in this docket. There are two key concepts from docket UM 2011 that Staff and the Commission should consider while assessing this issue.

First, avoided costs should be based on the net cost of capacity, consistent with best practices in docket UM 2011.<sup>12</sup> Net cost of capacity is calculated by subtracting the expected revenue requirement benefits of a resource, in terms of energy output, ancillary services, and potential environmental compliance benefits. The value is also adjusted for capacity contributions. This net cost of capacity concept was recently raised with respect to Portland General Electric Company's energy efficiency avoided costs in docket UM 1893,<sup>13</sup> but it was unclear whether Staff's Straw Proposal in this docket intended to use the net cost of capacity.

Second, PacifiCorp should be authorized to use an hourly loss of load probability (LOLP), rather than the ELCC, consistent with best practices in docket UM 2011.<sup>14</sup> The LOLP can provide an accurate estimate of capacity contribution with significantly less effort, i.e., without requiring an independent production cost model stochastic evaluation for every variation of resource types under consideration. Because LOLP includes hourly detail, it is also more transparent for identifying the seasons and hours where risk exists, and where that risk aligns with resource profiles under consideration. This allows for project-specific capacity contributions for standard resource types, as well as for non-standard avoided cost pricing.

In addition, the Company notes that accounting for the present value of expected resource changes over time is important, and can be overlooked if calculations are based on a simple average of resource capacity contributions through time. For example, there is an expectation that battery resources will have lower ELCC values in the future. If the ELCC for a four-hour battery drops to 50 percent, twice as much of that resource would be required to achieve a given increment of capacity. This may result in other resources having a lower net cost of capacity in future years, but the costs for the incremental resources needed to compensate for the declining value of battery resources do not need to be incurred for a number of years. As a result, the present value of both capacity costs and capacity contributions will differ from a simple average of the values through time.

Finally, while the Western Resource Adequacy Program (WRAP) uses qualified capacity contributions (QCC) based on ELCC, those calculations do not align with Staff's proposal to

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<sup>10</sup> Docket UM 2000, Staff's Phase 1 Proposal at 2.

<sup>11</sup> See *In the Matter of Public Utility Commission of Oregon, General Capacity Investigation*, Docket UM 2011, Order No. 22-468 (Dec. 1, 2022).

<sup>12</sup> Docket UM 2011, Order No. 22-468, Appendix A at 5-7, 16.

<sup>13</sup> See *In the Matter of Public Utility Commission of Oregon, Investigation Into the Methodology and Process for Developing Avoided Costs Used in Energy Efficiency Cost-Effectiveness Tests*, Docket UM 1893, Order No. 24-119, Appendix A (May 2, 2024).

<sup>14</sup> Docket UM 2011, Order No. 22-468, Appendix A at 5-7, 16.

perform a last-in analysis. Moreover, the WRAP analysis may not be available for a long-term horizon (such as 15 years), may not align with the preferred portfolio depending on timing, and may not allow for differentiated treatment of existing and new QFs. Because the WRAP is based on monthly QCCs, it also may not align with hourly resource scheduling requirements for market participation. There are many possible ways to calculate capacity contribution, and while Staff's principles are reasonable on their own, the ultimate resolution needs to reflect a calculation that produces a reasonable result using available data. Trade-offs may be necessary, and should be considered relative to the resulting outcomes.

## 5. Issue B.2 – Avoided Capacity Resource

**Staff Proposal:** Capacity: The marginal non-emitting capacity resource acquired (contract execution) for a minimum of five years of service since [Integrated Resource Plan (IRP)] acknowledgement.

- If there has not been a non-emitting resource procurement, use the lowest \$/MW-yr renewable resource modeled in IRP that the utility is capable of acquiring and delivering to Oregon customers.
- Recommendation for initial implementation: Battery – duration and other characteristics are utility specific.<sup>15</sup>

The Company recommends the Commission outline the specific data requirements for making capacity resource determinations, but at the same time cautions that the Commission should not overly circumscribe a utility's ability to weigh the best available data when reaching these conclusions. For example, the marginal non-emitting capacity resource acquired should not be directly tied to a specific IRP acknowledgment, given that IRP and Clean Energy Plan (CEP) acknowledgment is not certain. Because determining what is the appropriate avoided capacity resource is heavily circumstance-dependent, PacifiCorp recommends the Commission allow utilities to retain a certain level of flexibility when determining what is the most appropriate capacity resource.

This could be accomplished by allowing utilities to request to update, and the Commission to approve, an alternative marginal non-emitting capacity resource if a utility discovers that the previously approved marginal resource materially diverges from the Company's then-current resource. This mechanism could be incorporated either through utility tariff, standard contract, or explicit language in a Commission order that resolves the contemplated contested case.

With respect to Staff's proposal to use executed contracts to determine procurement of non-emitting capacity resources, depending on how granular of information Staff proposed to use from these contracts, the Company has concerns with publicly releasing certain contract-specific details. Several of these details are often confidential or highly confidential, and may be subject to non-disclosure agreements. While certain information could be provided to certain parties to evaluate the reasonableness of an avoided cost, it could be unwieldy to base avoided costs on confidential or highly confidential contract information.

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<sup>15</sup> Docket UM 2000, Staff's Phase 1 Proposal at 5.

## 6. Issue B.3 – Sufficiency/Deficiency (Capacity Value)

### **Staff Proposal:**

- Fixed QF ramp-in approved by Commission order – to reflect current tension between capacity deficit and capacity acquisition.
- Recommendation for initial implementation: 3-year ramp-in for [House Bill (HB)] 2021 obligated utilities, 5 years otherwise.
- Avoided resource energy value for entire fixed term.<sup>16</sup>

The Company is concerned that Staff’s date-certain capacity ramp-in proposal is not tied to specific capacity needs, because the Federal Energy Regulatory Commission (FERC) has made clear that if a utility does not need capacity, its avoided cost of capacity should be zero.<sup>17</sup>

While the concept of a ramp-in to transition from sufficiency to deficiency is reasonable, the date on which that transition occurs must be based on evidence of a utility capacity need. For example, PacifiCorp’s present circumstances might indicate an immediate capacity need that would trigger the ramp-in, but circumstances may change in the future and the methodology should be designed to account for changing circumstances rather than locking in current conditions with an inflexible methodology. A capacity ramp-in that ties to assumed QF success rates may be appropriate.

## 7. Issue B.4 – Payment Structure

### **Staff Proposal:**

- Solar, wind, baseload: capacity payment baked into the levelized \$/MWh on peak energy price, based on capacity contribution in [North American Electric Reliability Corporation (NERC) heavy load hours (HLH)] hours.
- Hybrid: separate \$/MWh volumetric payment for capacity provided during premium peak hours, paid in addition to energy price.<sup>18</sup>

<sup>16</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 5, 6.

<sup>17</sup> See 18 CFR Parts 292 and 375; *Qualifying Facility Rates and Requirements Implementation Issues Under the Public Utility Regulatory Policies Act of 1978*, 172 FERC ¶ 61,041 at 61,222-23 (2020) (FERC Order No. 872, ¶ 171) (“[The Public Utility Regulatory Policies Act (PURPA)] does not direct the Commission to guarantee that QF sales make up some specified share of utilities’ capacity needs nor does it require that each QF receive compensation for providing capacity. PURPA instead focuses on the purchasing electric utility’s avoided costs and provides that the Commission cannot require that prices charged by a QF exceed the purchasing electric utility’s avoided cost, if a purchasing electric utility has no need for additional capacity (and thus the purchasing utility’s avoided cost for capacity would be zero), the only service that QFs (and other suppliers) would need to provide that utility is energy.”); *Hydrodynamics Inc.*, 146 FERC ¶ 61,193 at 61,845-46 (2014) (“[A]voided cost rates need not include the cost for capacity in the event that the utility’s demand (or need) for capacity is zero. That is, when the demand for capacity is zero, the cost for capacity may also be zero.”); *City of Ketchikan, Alaska*, 94 FERC ¶ 61,293 at 62,062 (2001) (“[A]n avoided cost rate need not include capacity unless the QF purchase will permit the purchasing utility to avoid building or buying future capacity. Thus, while utilities may have an obligation under PURPA to purchase from a QF, that obligation does not require a utility to pay for capacity that it does not need.”).

<sup>18</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 5.

Staff's proposal continues to rely on the NERC HLH definition, which as discussed in Phase 0 of UM 2000, is outdated because it is based on a standard block peak period,<sup>19</sup> while energy and capacity value varies widely across the day.<sup>20</sup> A more targeted on-peak definition (which distinguishes premium peak hours), like that adopted for solar-plus-storage QFs can provide beneficial signals to all resource types. Like rate design, QF payment structures should align costs and benefits, and should not impact the overall level of compensation for the typical QF of a given type. A targeted definition of on-peak hours like what was adopted in Phase 0 could support this alignment.

## 8. Issue C.1 – Avoided Energy Resource

**Staff Proposal:** The marginal renewable resource acquired (contract execution) for a minimum of five years of service since IRP acknowledgement.

- If there has not been a renewable resource procurement since IRP acknowledgement, use the lowest \$/MWh renewable resource modeled in IRP that the utility is capable of acquiring and delivering to Oregon customers, including integration costs.
- Recommendation for initial implementation: Wind – location and other characteristics are utility specific.<sup>21</sup>

The idea that capacity is interchangeable is somewhat ingrained in utility planning. Looking at an LOLP profile, one could imagine a variety of ways of reaching a 25 percent capacity contribution over a year, e.g., by partially covering a few hours during summer evenings or many hours during the winter.

However, this concept of a single avoided energy resource is not appropriate for avoided energy costs, because avoided energy costs are not interchangeable over the course of a year. For example, solar energy is preferred when the sun shines and wind energy is preferred when the wind blows. While battery discharge can fill in some of the gaps when these resources are not available, other energy resources will likely be necessary to provide adequate backstop when deficits from these QF resources become too great. These additional energy resources will likely have a relatively high variable cost since they will not be needed much of the time.

In addition, utility resource portfolios expect to rely on a wide range of resource types to provide service to customers. The idea that these various resources can be distilled into a single resource type (e.g., a wind resource) with certain adjustments is unlikely, particularly for renewable resources that have different characteristics and unique values. This means that Staff's proposal to use a single resource type to value energy from a variety of QF resource types is unreasonable.

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<sup>19</sup> See, e.g., PacifiCorp Oregon Schedule 276R at 1 (effective Mar. 22, 2011), available at [https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/rates-regulation/oregon/tariffs/rates/276R\\_Large\\_General\\_Service\\_Partial\\_Requirements\\_Service\\_Economic\\_Replacement\\_Power\\_Rider\\_Supply\\_Service.pdf](https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/rates-regulation/oregon/tariffs/rates/276R_Large_General_Service_Partial_Requirements_Service_Economic_Replacement_Power_Rider_Supply_Service.pdf) (“Blocks of Energy – equal MWs per hour for all of the hours: Heavy Load Hour (HLH) block is equal to 16 hours Monday – Saturday, Hour Ending (HE) 0700 – HE 2200 Pacific Prevailing Time (PPT).”).

<sup>20</sup> See, e.g., Docket UM 2000, PacifiCorp's Public Comments Regarding Staff's Proposed Phase 0 Scoping Memo at 2 (Mar. 7, 2023).

<sup>21</sup> Docket UM 2000, Staff's Phase 1 Proposal at 6.

However, if Staff decides to retain this concept that a single resource type be used, the Company stresses that it needs to reflect the net cost of energy, i.e., after subtracting out capacity benefits.

Finally, PacifiCorp raised concerns in its 2023 IRP Update Oregon Planning Supplement with respect to the treatment of QFs for compliance with HB 2021 greenhouse gas (GHG) emissions targets.<sup>22</sup> The GHG emissions avoided from QFs are excluded from a utility’s total GHG emissions calculation under HB 2021.<sup>23</sup> If a proxy resource contributes to HB 2021 compliance and a QF does not, that discrepancy is problematic in determining accurate avoided cost pricing.

## 9. Issue C.2 - Sufficiency/Deficiency Prices (Energy Valuation)

### **Staff Proposal:**

- Avoided resource energy value (for entire fixed term).<sup>24</sup>

Staff’s assumption that the avoided resource energy value will apply to all QF types over the fixed price term of the contract will not necessarily align with utility avoided costs, or the impact of a QF on actual revenue requirements. For the same reasons using a single avoided energy resource is potentially problematic, locking in that resource’s avoided energy cost for the entire fixed price term is problematic.

## 10. Issue D.1 – Renewable Portfolio Standard (RPS)

### **Staff Proposal:**

- No standard pricing for [Renewable Energy Credit (REC)] sales, QF can separately negotiate price for REC sale to utility.<sup>25</sup>

Staff recommends that, instead of RECs being remitted to the utility, that QFs may retain title to its RECs and separately negotiate sale of the RECs to the utility.<sup>26</sup> PacifiCorp disagrees to the extent it contradicts the Commission’s avoided cost pricing principles.<sup>27</sup> Oregon RPS-eligible resources identified in the IRP or procured in an RFP generate RECs that are used for RPS compliance, and the cost of such resources therefore includes an RPS-compliance benefit. Compensating QFs based on the avoided cost of an RPS-eligible proxy resource—as Staff recommends—but then allowing the QF to retain its RECs would not provide equivalent value to customers, unless the lost RPS-compliance benefits associated with the avoided resource are accounted for, presumably through a reduction in the avoided cost price paid to the QF.

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<sup>22</sup> *In the Matter of PacifiCorp, dba Pacific Power, 2023 Integrated Resource Plan*, Docket LC 82, PacifiCorp’s Oregon Planning Supplement at 17 (Apr. 1, 2024).

<sup>23</sup> ORS 469A.435(2).

<sup>24</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 6.

<sup>25</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 6.

<sup>26</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 3, 6.

<sup>27</sup> *See In the Matter of Public Utility Commission of Oregon, Investigation Into Resource Sufficiency Pursuant to Order No. 06-538*, Docket UM 1396, Order No. 11-505 at 7 (Dec. 13, 2011) (“A QF’s receipt of the renewable resource avoided cost rate, however, is contingent upon the QF transferring the REC associated with the energy sold to the purchasing utility. If the QF does not transfer the renewable energy credits, the utility will not avoid costs to purchase energy that complies with the RPS.”).



While Staff’s proposal would appear to allow for this reasonable price reduction, because there would not be any standard pricing required by Staff’s method for REC sales, the Company recommends Staff clarify this issue. Staff could do so by confirming that if an RPS-eligible QF is paid for avoiding the acquisition of an RPS-eligible resource, then the REC must transfer to the utility, or the value of the REC must be reduced from the avoided cost price.

## 11. Issue D.2 – Small-Scale Resource (SSR)

**Staff Proposal:**

- Simple SSR compliance adder for <20 MW projects that attest to attaining SSR eligibility.
- Only applicable to HB 2021 Utilities.<sup>28</sup>

FERC has been clear that a state “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. Such practices would result in rates which exceed the incremental cost to the electric utility and are prohibited by [the Public Utility Regulatory Policies Act (PURPA)].”<sup>29</sup>

To ensure that the SSR adder better reflects utility avoided costs, it should not be based on a \$/MWh value, because Oregon’s SSR mandate is a capacity standard, not a volumetric standard.<sup>30</sup> This means that the eligible portion of an SSR-eligible QF used for compliance would not be based on volumetric output, but rather would be based on the nameplate capacity of the resource. Staff should amend its proposal to reflect this reality, and avoid an adder that would not provide all the SSR benefits that it sought to achieve.

PacifiCorp also recommends that, because RPS-eligibility requires ongoing steps by a given resource, Staff should require QFs to *maintain* SSR-eligibility (including RPS-eligibility) to continue to receive the SSR adder, in addition to *attaining* eligibility. This would ensure that a QF has the appropriate incentive to maintain SSR-eligibility to receive the adder.

## 12. Issue D.3 – Deliverability

**Staff Proposal:** Cost assumptions for the avoided resource must reflect the avoided resource’s proportional share of transmission build out estimated in the IRP preferred portfolio.<sup>31</sup>

<sup>28</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 6.

<sup>29</sup> *S. Cal. Edison Co. San Diego Gas & Elec. Co.*, 71 FERC ¶ 61,269 at 62,080 (1995).

<sup>30</sup> ORS 469A.210(2) (“For purposes related to the findings in subsection (1) of this section, by the year 2030, at least 10 percent of the aggregate electrical capacity of all electric companies that make sales of electricity to 25,000 or more retail electricity consumers in this state must be composed of electricity generated by one or both of the following sources...[s]mall-scale renewable energy projects with a generating capacity of 20 megawatts or less that generate electricity utilizing a type of energy described in ORS 469A.025[.]”); OAR 860-091-0030(2) (“The eligible portion of a project’s capacity used to comply with the standard in ORS 469A.210(2) is the percentage of annual project costs paid for by Oregon retail customers.”).

<sup>31</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 6.

PacifiCorp recommends Staff remove this issue from its proposed methodology, because avoided transmission costs are not well-suited for standard avoided cost price streams which are not resource specific, nor are standard QFs large enough to generate avoided transmission costs.

PacifiCorp's avoided cost prices account for avoided network upgrade costs associated with the proxy resource, consistent with the Commission's decision in docket UM 2032. To the extent Staff's recommendation goes farther and would compensate small standard QFs for ostensibly enabling PacifiCorp to avoid large-scale transmission system build outs, this proposal is extremely problematic. It is highly unlikely that any individual QF—especially small standard QFs under 10 MW in size, or even a combination of QFs sited in Oregon—would allow PacifiCorp to avoid constructing elements of its long-term transmission plan included in its IRP. This means that as a practical matter, Oregon customers would pay for transmission resources twice—once through avoided cost prices paid to QFs and once when the transmission resource is actually built.

Moreover, accounting for transmission system expansion in avoided cost pricing is complex and must reflect net costs, after adjusting for congestion relief and reliability/compliance requirements. For example, transmission constraints are by nature location-specific, and any methodology accounting for such constraints must ensure that a QF is not being paid for congestion relief benefits if the QF's chosen location actually exacerbates the issue or worsens congestion at a different location. It also can be difficult to sever the energy benefits of a resource from the congestion relief benefits of a transmission line.

For these reasons, PacifiCorp opposes Staff's recommendation and stresses that these issues are better left to be resolved with non-standard avoided cost practices, if at all. However, if Staff chooses to retain this proposal, it is necessary to also require reductions in avoided costs to the extent specific QFs do not avoid large-scale transmission build outs. This would ensure ratepayers are left indifferent from either the avoided costs or benefits that these small QFs could potentially provide for PacifiCorp's transmission system.

### 13. Issue E.1 – Ancillary Services

<b>Staff Proposal:</b> No change; no value for ancillary services. <sup>32</sup>
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PacifiCorp opposes Staff's recommendation because Staff's proposed methodology relies on the costs associated with avoided proxy resources. Had the utility acquired the avoided proxy resource, the utility would have received the energy and capacity from the resource *and the ancillary service benefits*. Avoided cost pricing based on a proxy resource therefore compensates a QF for providing ancillary services. For example, utility-controlled dispatchable generators and battery storage resources can provide operating reserves that help offset the operating reserve requirements associated with their own output, along with the requirements of other generators. QFs also result in contingency reserve costs, whereas market purchases do not. These ancillary service costs should be accounted for in the same manner as integration costs.

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<sup>32</sup> See Docket UM 2000, Staff's Phase 1 Proposal at 6.

#### 14. Issue E.2 – Other Resource Value of Solar (RVOS) Values

**Staff Proposal:** No change; no value for other RVOS values.<sup>33</sup>

PacifiCorp notes that the RVOS template, developed in 2019, yields significant benefits in calculating and presenting various avoided cost components in a standardized and transparent manner.<sup>34</sup> The impact of Staff’s proposals in this docket on avoided cost pricing and annual QF compensation are critical to evaluating impacts on customers. Evaluating alternatives made by the utilities or other stakeholders would be easier if a baseline set of assumptions, terminology, and formats was established, such as those adopted in the RVOS template.

The Company recognizes that Staff may not be sufficiently familiar with each utility’s inputs to populate the RVOS template, and suggests that all stakeholders could benefit from coordination to gather relevant data before beginning the contested case portion of this proceeding. This would allow for Staff and parties to view *results* from the proposed *methodology*, prior to entering the contested case proceeding, and would allow for any necessary course corrections where the methods create results that differ materially from utility avoided costs.

#### 15. Issue F.1 – QF Renewal Rates

**Staff Proposal:** QF renewal rates to be modelled in the IRP to equal the 10-year historical renewal rate of QF projects at the time of IRP filing, assuming that QFs will continue upon reaching their current expiration date at a size equal to the historical renewal rate. Should 10 years of data not be available, use a renewal rate assumption of 75 percent.<sup>35</sup>

The Company adopted Staff’s proposal with regard to QF renewal rates in the Company’s 2023 IRP, and does not have any specific concerns with the proposal in this docket. However, for capacity value to begin immediately as proposed by Staff, it may be necessary to require that contract renewals occur somewhat in advance of contract expiration, to meet forward showing obligations and to align with planning requirements and procurement.

#### 16. Issue F.2 - QF Success Rates

**Staff Proposal:** Use the 10-year historical QF project success rate at the time of IRP filing. Should 10 years of data not be available, use a success rate assumption of 75 percent.<sup>36</sup>

Staff’s proposal regarding QF success rates raises several areas of concern. As an initial matter, QF success rates are very circumstance specific. The circumstances in place over a historical 10-year span, as Staff proposes to consider in determining the QF success rate, may be wide-ranging and may have little to do with current circumstances for executed QF agreements where the QFs are not yet online. The Commission is also in the process of finalizing new standard QF contracts, and the terms and conditions therein could impact success rates going forward, relative

<sup>33</sup> See Docket UM 2000, Staff’s Phase 1 Proposal at 7.

<sup>34</sup> See *In the Matter of PacifiCorp, dba Pacific Power, Resource Value of Solar*, Docket UM 1910, Order No. 19-021 (Jan. 22, 2019).

<sup>35</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 7.

<sup>36</sup> Docket UM 2000, Staff’s Phase 1 Proposal at 7.

to past contracting. The Company's past IRPs have assumed that all QFs will perform in accordance with their contracts until updated information is received indicating otherwise. The Company would note that, unlike QF renewal, which may happen based on conditions many years in the future, QF success is based on current conditions and those in the few years allowed between execution and scheduled commercial operation. Such information is commonly part of non-price scoring in RFPs, and includes the status of financing, site control, major equipment procurement, environmental studies, and interconnection upgrades. To the extent the standard contract requires timely provision of such information by QFs prior to commercial operation, said information could be used to set more accurate success rates.

In any event, if QFs are going to have an assumed success/failure rate, i.e. they may not provide capacity and energy benefits following their scheduled commercial operation date, Staff and stakeholders should consider whether such rates need to be reflected in QF avoided cost contract pricing.

## **17. Conclusion**

PacifiCorp appreciates the opportunity to provide additional feedback, and looks forward to continued engagement with Commission Staff and other stakeholders.

Please contact Cathie Allen at (503) 813-5934 if you have any questions.

Sincerely,



Matthew McVee  
Vice President, Regulatory Policy & Operations  
Pacific Power