BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2011

In the matter of PUBLIC UTILITY COMMISSION OF OREGON, General Capacity Investigation	RENEWABLE ENERGY COALITION'S REPLY COMMENTS

I. INTRODUCTION

The Renewable Energy Coalition (the "Coalition") provides these reply comments in response to other stakeholders' written and oral comments, particularly those at the March 17, 2020 workshop. The Coalition's primary concerns continue to be the treatment of existing resources and the current sufficiency-deficiency demarcation approach to valuation and compensation for capacity. In Oregon, the utilities do not pay for capacity during the sufficiency period. They pay for capacity only during the deficiency period. The utilities should pay for capacity during all times, whether sufficient or not. Oregon's approach is particularly harmful to existing contracted resources when they renew their contracts and stop receiving capacity payments until the next deficiency date. The Coalition maintains this treatment substantially undervalues capacity, is inequitable, and is inconsistent with public policy goals. In prior comments, the Coalition identified Washington's policies as an alternative model. Another useful example to consider is Idaho, as the Coalition explains below.

Besides this specific concern, the Coalition's overall impression is that there is hope among non-utility stakeholders that this docket is headed in the right direction, tempered by the recognition that there is much work yet to be done. This broad sentiment is indicative of underlying concerns with the utilities' current capacity valuation methodologies. By contrast, the Joint Utilities[1] appear to disagree that there is any problem to be solved, implicitly suggesting this docket is no more than an academic exercise. The Coalition disagrees with the Joint Utilities on this fundamental point and finds it necessary in these reply comments to acknowledge the importance of this nearly two-year-old docket and the progress made to date.

In terms of work yet to be done, the Coalition takes this opportunity to express its appreciation for the efforts to date of other stakeholders, including the Public Utility Commission of Oregon ("OPUC" or the "Commission") Staff. Staff largely addressed the Coalition's concerns about how Staff will apply the results of this docket in other regulatory proceedings. The Coalition was concerned that a narrow scope could have discouraged robust stakeholder participation, but Staff has clarified that this proceeding will have a wide-ranging impact on capacity issues. The Coalition is thankful that the comments in this round were generally both robust and forward-thinking.

There are significant concerns to be addressed, some of which stakeholders (the Coalition included) have been unable to fully evaluate due to a lack of information or clarity about Staff's proposal. While the Coalition is not taking a position at this time on most of the technical concerns raised in other stakeholders' comments, the Coalition is sympathetic to the concerns raised in those comments and looks forward to engaging further with Staff and other stakeholders to produce the most effective, accurate, and transparent capacity valuation methodology possible.

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[1] Portland General Electric Company, PacifiCorp dba Pacific Power, and Idaho Power Company filed comments together as the "Joint Utilities."

II. COMMENTS

A. The Coalition Generally Maintains its Concerns with the Treatment of Existing Resources and the Sufficiency-deficiency Demarcation Approach

The Coalition noted in prior comments that this docket has not yet adequately considered problems with Oregon's sufficiency-deficiency demarcation approach, particularly its impact on existing non-utility owned resources. The Coalition maintains that the status quo in Oregon is in dire need of improvement, as the current policy undervalues the capacity of these resources upon contract renewal. The Coalition maintains that this treatment is inequitable and inconsistent with public policy goals.

The Coalition maintains that: 1) existing non-utility owned resources should receive full capacity payments when they renew their contracts; and 2) utilities should base capacity payments on the actual capacity contribution of the resource standing alone. Renewing resources have, for a long time, become imbedded in the purchasing utility's stack of capacity resources, and remain so imbedded on renewal. They should not be plucked out and put in a holding pattern when they in fact continue to provide the capacity they have always provided. E3 provided a first-in-ELCC model approach that *might* achieve this goal.[2] Alternatively, purchasing utilities should evaluate the resource based on its marginal contribution to meeting peak demand needs measured at the time when the resource was built and *not* at the time of contract renewal. Renewable Northwest calls this a "vintaged marginal" approach.[3] The Coalition agrees with Renewable Northwest that this approach should "enable a degree of revenue certainty for

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2 Energy + Environmental Economics, Principles of Valuation at 3-4 (2002) [hereinafter E3 Report].

3 Comments of Renewable Northwest Regarding E3's Report and Staff's Comments at 6 (Mar. 8, 2021).

developers" and provide "additional financial stability that a purely marginal approach doesn't."[4] However, the Coalition is not certain it understands Renewable Northwest's statement that locking in ELCC values for "too long" might be harmful and "resemble[] long-term contracting."[5] If Renewable Northwest means that long-term contracts should have a "vintaged marginal" ELCC, the Coalition agrees (both for the contract and any renewal), but it is not clear whether that is Renewable Northwest's position.

The Coalition identified Washington's policies as an alternative model to Oregon's current approach. In brief summary, the Washington Utilities and Transportation Commission retained the sufficiency-deficiency demarcation but choose to value capacity during *both* sufficiency and deficiency periods based on the next capacity resource and not market purchases.[6] The sufficiency period capacity resource is a gas peaker.

The Coalition notes that Idaho's approach is another useful example to consider. Similar to Oregon's avoided cost rate methodology, the Idaho Public Utilities Commission's ("Idaho Commission") avoided cost rates include resource sufficiency and deficiency periods, but the Idaho Commission differentiates its methodology between new and existing projects. For new (but not existing) qualifying facilities ("QFs") in Idaho, similar to both new and existing Oregon QFs, the initial years result in a resource sufficiency period where the rates are based on market purchases and do not include meaningful capacity payments. This result occurs because the QF is only paid for

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4 Comments of Renewable Northwest Regarding E3's Report and Staff's Comments at 6 (Mar. 8, 2021).
5 *Id.*
6 Coalition Comments at 13-14.

capacity "at such time that the utility becomes capacity deficient", which almost never includes the early contract years.[7]

The Idaho and Oregon Commission's policies significantly diverge in terms of existing projects being paid for capacity when they renew their contracts. The Idaho Commission recognizes the fact that all, or nearly all, existing QFs renew their contracts, which reduces the utility's need to purchase new capacity resources. The Idaho Commission explained:

> By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power. However, we find merit in the argument made by the Canal Companies that contract extensions and/or renewals present an exception to the capacity deficit rule that we adopt today. It is logical that, if a QF project is being paid for capacity at the end of the contract term and the parties are seeking renewal/extension of the contract, the renewal/extension would include immediate payment of capacity. An existing QF's capacity would have already been included in the utility's load and resource balance and could not be considered surplus power. Therefore, we find it reasonable to allow QFs entering into contract extensions or renewals to be paid capacity for the full term of the extension or renewal.[8]

The Idaho Commission specifically reaffirmed that policy in an order that lowered the contract term.[9] The Idaho Commission continued its policy that existing QFs that renew their contracts would be paid capacity during the sufficiency period. In addition, the Idaho Commission clarified that utilities should treat new QFs that renew their contracts as existing QFs in most circumstances, so they will be paid capacity in

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7 *See in re the Commission's Review of PURPA QF Contract Provisions*, IPUC Case No. GNR-E-11-03, Order No. 32697 at 21-22 (Dec. 18, 2012) *clarified* in Order No. 32871 (Aug. 9, 2013).

8 *Id*.

9 *In re Idaho Power Company's Petition to Modify Terms and Conditions of PURPA Purchase Agreements*, IPUC Case Nos. IPC-E-15-01, AVU-3-15-01, PAC-E-15-03, Order No. 33357 at 25-26.

most of the years for renewal contracts. The Idaho Commission explained that:

> We recognize that a new two-year contract would be unlikely to reach a capacity deficiency date. Therefore, we find it reasonable for utilities to establish capacity deficiency at the time the initial IRP-based contract is signed. As long as the QF renews its contract and continuously sells power to the utility, the QF is entitled to capacity based on the capacity deficiency date established at the time of its initial contract. For example, if the QF comes on-line in 2017 and the utility is capacity deficient in 2020, the QF would be eligible for capacity payments in the second year of its second contract and thereafter if in continuous operation. This adjustment recognizes that in ensuing contract periods, the QF is considered part of the utility's resource stack and will be contributing to reducing the utility's need for capacity. This mitigates the concern that short-term contracts will not contribute to the avoidance of utility capacity/generation.[10]

Existing QFs should be paid for capacity when they renew their contracts. This is consistent with how utilities plan their operations and with the benefits that existing QFs provide to the utilities.

B. This Docket is Important

The Commission opened this docket almost two years ago to establish "a methodology that looks to the characteristics of capacity a resource provides" and could be "used across multiple dockets and technologies for valuing capacity brought to the electric system."[11] At the public meeting that launched this proceeding, the Commission recognized the goal of developing an "apples to apples" comparison of capacity across technology types, while "keeping our eye on the fact that [the grid] is changing [and] what we need in five years will be different from what we need in ten years."[12] Chair

10 *Id.*

11 Order No. 19-155, App. A at 4 (Apr. 26, 2019).

12 OPUC Public Meeting at 1:50-11:51 (Apr. 23, 2019), recording available at https://oregonpuc.granicus.com/MediaPlayer.php?view_id=2&clip_id=389

Decker recognized this valuation has come up in multiple dockets for multiple resource types, so the hope for this docket is to develop "some common principles and ways to refresh our approach."[13]

The Joint Utilities' comments suggest that this docket is unnecessary. The Joint Utilities appear to suggest that no capacity valuation methodology will improve upon the existing Integrated Resource Plan ("IRP") methodologies and that this docket should not consider proposed changes.[14] In sum, the Joint Utilities' comments leave the impression that this docket will have no practical benefit and is no more than an academic exercise. The Coalition disagrees.

If the utilities' IRP methodologies were already perfect at comparing the capacity values of different resources, then the Coalition might agree this docket may be unnecessary. However, the methodologies are *not* perfect. The Staff Report noted that there were "disparate approaches" in different dockets, *including* "utility IRP planning and the determination of a sufficiency/deficiency demarcation."[15]

In prior comments, the Coalition asked Staff to clarify its vision for this docket and potential applications. Before the March 17, 2021 workshop, Staff circulated a document listing potential applications, including "IRP proxy resources."[16] The Coalition thanks Staff for providing this clarity and agrees that this docket could and

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13 *Id.*

14 Joint Utilities' Initial Comments in Response to E3 Report and Staff's Opening Comments at 4-7 (discussing the IRP methodologies as the end-all, be-all methodologies, stating that any new methodology should be benchmarked against the IRP methodology, and concluding that any changes to the IRP methodologies should be considered in the IRP process rather than this docket).

15 Order No. 19-155, App. A at 2.

16 Staff Agenda for the March 17, 2021 Workshop, App. at 1 (on file with author). The Coalition notes this document does not yet appear on the docket.

probably should inform how utility IRPs treat proxy resources. That is one of several meaningful applications of this docket.[17]

By contrast with the Joint Utilities' comments, other stakeholders' comments were generally optimistic about the methodology under discussion, albeit with the recognition that it needs further adjustments. For instance, both Renewable Northwest and NW Energy Coalition expressed approval for using the Effective Load Carrying Capability ("ELCC") approach. However, their comments highlight several areas that need improvement, as discussed further in the next section.[18] The Coalition believes that non-utility stakeholders' engagement in this process evinces a broad consensus that there is room for improvement, and this docket can and hopefully will be a meaningful vehicle for change.

C. More Work is Needed to Address Stakeholders' Concerns

While the Coalition looks forward to seeing this docket progress, it is evident that there are substantial concerns that need addressing. As noted at the workshop, stakeholders could not fully evaluate certain components of Staff's proposed methodology and understand how it would change the status quo. Further, several stakeholders have identified concerns with the methodology. For instance, the NW

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17 The Coalition agrees with Staff that this generic proceeding should consider capacity valuation across applications, including but not limited to Public Utility Regulatory Policy Act ("PURPA") matters. The Coalition maintains that a generic proceeding is most likely to produce a fair perspective across all applications, and the Joint Utilities' opposition is not persuasive on this point. *See* Joint Utilities' Initial Comments in Response to E3 Report and Staff's Opening Comments at 2-4 (suggesting that several topics under discussion in this docket ought instead to be resolved in dockets UM 2000 or AR 631 and not resolved in this proceeding).

18 Comments of NW Energy Coalition at 3 (Mar. 8, 2021); Comments of Renewable Northwest Regarding E3's Report and Staff's Comments at 3.

Energy Coalition outlined concerns with: data availability and quality; comparators (like the Planning Reserve Margin and Cost of New Entry metrics); composite resources like solar plus storage; evaluation of space and time and the changing grid; and changing procurement practices from one resource to portfolio procurements.[19] While the Coalition is not taking a position at this time on most of the technical concerns raised in other stakeholders' comments, the Coalition is sympathetic to the concerns raised. To be sure, the Coalition shares at least some of these concerns, as noted in earlier comments.[20] The Coalition agrees with and supports Obsidian Renewables' comments, particularly the concerns with: 1) equity between utility and non-utility generation in terms of valuation and compensation; 2) planning for the future system rather than the existing system; 3) considering whether fossil-fueled plants will be able to operate indefinitely into the future; and 4) modeling delivery constraints.[21]

III. CONCLUSION

The Coalition appreciates this opportunity to provide comments and looks forward to further engaging with Staff and other stakeholders to produce the most effective, accurate, and transparent capacity valuation methodology possible.

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19 Comments of NW Energy Coalition at 3-4.

20 *E.g.,* Coalition's Comments at 6-7 (discussing the need to consider the changing system).

21 Obsidian Renewables Comments at 1-2 (Mar. 8, 2020).

Dated this 26th day of April 2021.

Respectfully submitted,

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Irion Sanger
Joni Sliger
Sanger Law PC
1041 SE 58th Place
Portland, OR 97215
Telephone: (503)756-7533
Fax: (503)334-2235
irion@sanger-law.com

Attorneys for the Renewable Energy Coalition