BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1396

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into Determination of Resource Sufficiency, pursuant to Order No. 06-538.	STAFF OPENING COMMENTS

Pursuant to Administrative Law Judge (ALJ) Power's request to receive comments on the issues identified in Order No. 10-488, Appendix A, Staff of the Public Utility Commission of Oregon (Staff) submits the following opening comments:

UE 1396
Resource Sufficiency Order No 10-488, Appendix A.
Staff Opening Comments:

I. Substantive Issues

A. **Should the Commission require that each utility determine its avoided cost for a renewable resource?**

If the utility's Integrated Resource Plan (IRP) Action Plan includes acquisition of a Renewable Portfolio Standard (RPS) eligible resource, the Commission should require that the utility determine an avoided cost for a RPS eligible renewable resource (renewable avoided cost). As discussed below, Staff recommends the Commission use the utilities' IRP Action Plans to determine whether the utilities are renewable resource sufficient or deficient and require the utilities to offer Qualifying Facilities (QFs) renewable avoided cost rates when they are renewable resource deficient.

If so, how should the Commission decide what renewable resource would be avoided and at what cost?

Staff believes the IRP Action Plan should be the basis for identifying the avoided renewable resource and determining when it is avoidable. The renewable resource cost estimates, provided in the IRP and reviewed by the Commission, should be the basis of the renewable avoided cost.

In keeping with the practice of using a proxy plant for calculating costs that can be avoided when QF power replaces utility resources (Order 05-584), Staff believes that the appropriate avoidable renewable resource and avoided cost to use when the utility is renewable resource deficient is a utility scale regional wind plant with capacity factors and transmission losses typical to that resource. For small renewable QFs (10 MW or smaller) the avoided cost would be inclusive of any production tax credit that may apply and exclude integration costs. The payment of renewable avoided cost would be for delivery of a bundled renewable energy product. Large renewable QFs would be eligible for renewable avoided cost based PPAs that follow the large QF Order No, 07-360 and its associated guidelines.

1. Should the IRP Action Plan be used to identify when a renewable resource acquisition would be avoided, or should a utility purchase of unbundled renewable energy credits signal the start of a renewable resource deficiency period?

The IRP Action Plan should identify when a renewable resource would be avoided and not the utility's purchase of unbundled renewable energy credits (RECs). Staff believes that it is unlikely Oregon utilities will be participating, to any great extent, in the market for unbundled RECs to satisfy their RPS requirements. This is because the Oregon RPS allows only twenty percent of the RPS requirement to be met with unbundled RECs in any given year and Oregon utilities are currently acquiring and banking RECs from bundled renewables to be used in the future. Other than for RPS compliance Staff sees little incentive for utilities to participate in the unbundled REC market.

2. Should out-of-state renewable portfolio standards be taken into account when determining when a renewable resource can be avoided by a purchase from an Oregon QF?

Staff does not believe that out-of-state renewable portfolio standards should be used to determine when a renewable resource can be avoided. PacifiCorp is the only Oregon utility with out of state RPS standards and under the current and proposed allocation methodology for PacifiCorp, "costs associated with resources acquired pursuant to a State Portfolio Standard, which exceed the costs that the utility would have otherwise incurred, are assigned on a situs basis to the state adopting the standard…"

3. Should the renewable avoided cost be based on the estimated cost of the renewable resources identified in the IRP Action Plan, or should the Commission use a "proxy" resource approach similar to the current approach used by PGE and PacifiCorp for standard avoided costs?

Staff believes the IRP Action Plan should be the basis for determining when a renewable resource is avoidable. When a utility is renewable sufficient the avoided cost will be the same fixed avoided cost prices that apply for non-renewable

standard QF avoided cost contracts. Since the resource sufficiency period avoided costs do not reflect the acquisition of renewable energy attributes, the QF would not be required to cede RECs for the energy sold. During the renewable resource deficiency period, the renewable avoided costs should be based on a proxy utility scale regional wind plant with capacity factors and transmission losses typical to that resource.

4. When should the renewable avoided cost stream reflect an avoided purchase of an unbundled renewable energy certificate?

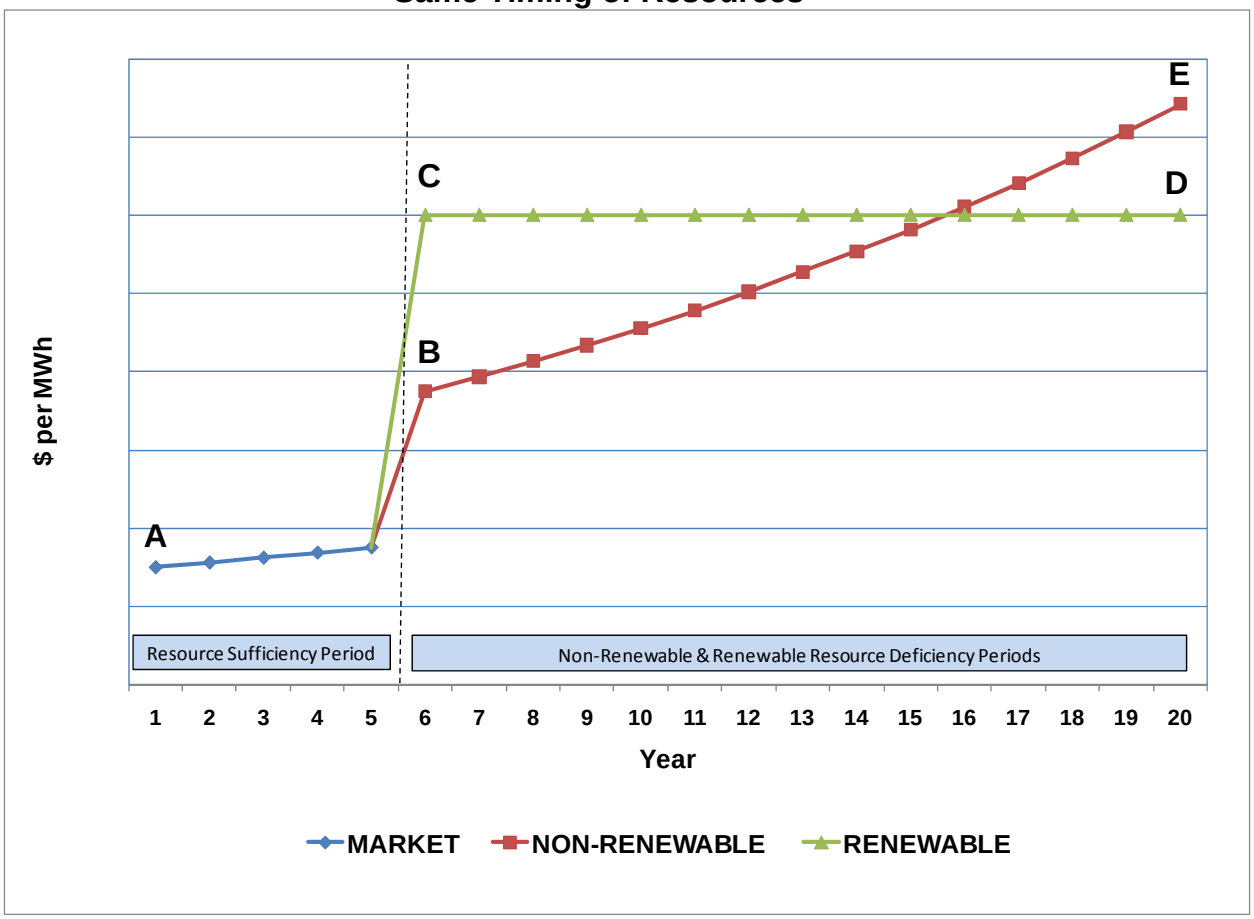
The renewable avoided cost stream should never reflect an avoided cost based on the purchase of unbundled RECs. PURPA requires that avoided costs be based on the costs of purchasing energy and capacity. The Oregon Department of Justice advises that Federal Law does not provide the Commission with the authority to base avoided costs on a non-PURPA commodity.

B. Should the Commission require that a renewable QF be able to choose among two avoided cost streams – the renewable avoided cost stream, and the non-renewable avoided cost stream?

The renewable QF should have the option to choose which of the two avoided cost streams make the most sense for its project at the time it enters into the power purchase agreement. If the QF chooses the renewable avoided cost stream it will have to cede the RECs for the energy it sells under that contract during the utility's renewable resource deficiency period. During the utility's resource sufficiency period, regardless of whether a QF chooses the renewable avoided cost stream or the non-renewable avoided cost stream, the avoided costs should be based on the non-renewable avoided costs. During the utility's resource sufficiency period the utility would have no claim to any RECs that may be produced by the QF.

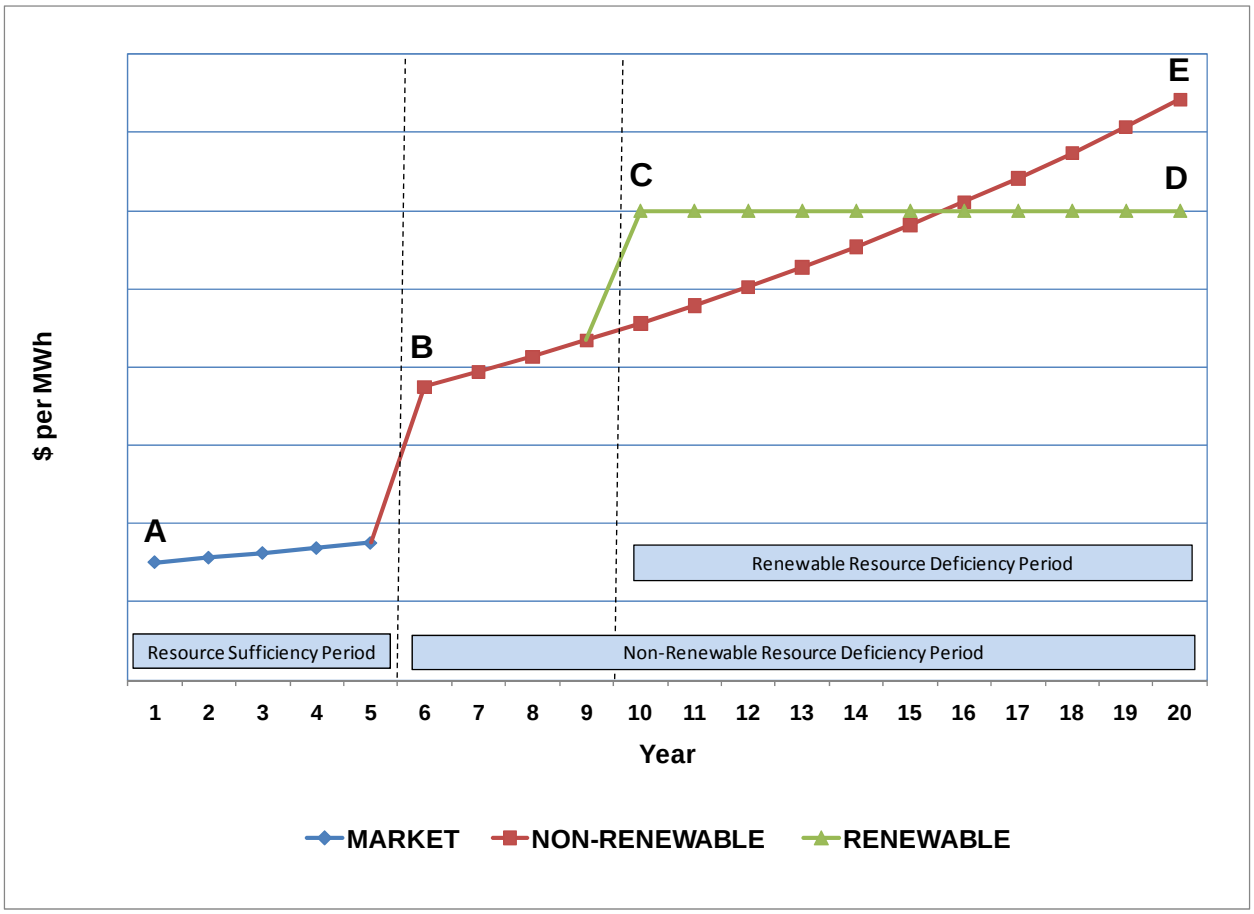
An illustration may help to clarify this point; see Figure A in which both the non-renewable and renewable avoided cost streams are graphically depicted. The non-renewable stream of avoided costs follows the path A to B to E. This path is comprised of market prices during the utility's resource sufficiency period (Years 1 - 5) and the cost of the proxy combined-cycle combustion turbine during the resource deficiency period (Years 6 -20). The proposed renewable stream of avoided costs follows the path A to C to D. This path is comprised of market prices during the utility's resource sufficiency period (Years 1 -5) and the levelized cost of the proxy wind farm during the resource deficiency period (Years 6 -20). A QF that chooses the renewable avoided cost path would begin ceding RECs to the utility in Year 6.

Figure A: Illustration of Avoided Cost Options
Same Timing of Resources



I have included a second illustration, Figure B, to indicate a different scenario applying the same avoided cost principles. The example shows the renewable resource deficiency period occurring after the non-renewable resource deficiency period.

Figure B: Illustration of Avoided Cost Options
Renewable Resource Later in Period



The non-renewable stream of avoided costs follows the same path A to B to E as in the previous illustration. The proposed renewable stream of avoided costs follows the path A to B to C to D. This path is comprised of market prices during the utility's resource sufficiency period (Years 1 -5); the cost of the proxy combined-cycle combustion turbine during the first part of resource deficiency period (Years 6 - 9); and the levelized cost of the proxy wind plant during the renewable resource deficiency period (Years 10 -20). A QF that chooses the renewable avoided cost path would begin ceding RECs to the utility in Year 10.

The timing of the change from resource sufficient to resource deficient for either type of avoided cost stream would depend on the resource additions depicted in the IRP Action Plan. An eligible QF can choose between the renewable or non-renewable avoided cost streams each time it enters into a new PPA, regardless of which option

it has chosen in the past, and may enter in to any length of standard contract up to 20 years.

A QF entering into a renewable avoided cost based power purchase agreement, under the proposal laid out in these comments, has to cede the RECs produced during the renewable resource deficiency period to the utility in return for being paid the renewable avoided costs. The requirement that RECs be delivered in exchange for the avoided cost payments may conflict with requirements placed on the disposition of RECs as a condition to receiving Energy Trust of Oregon renewable energy project funding.

C. When is a planned resource acquisition avoidable?

Staff believes the IRP Action Plan should be the basis for determining when planned resource acquisitions are avoidable. Resource acquisitions identified in the most recently acknowledged IRP are avoidable. Committed resources from previously acknowledged IRPs that are not yet in service are not avoidable. This IRP Action Plan based approach to determining which resources are avoidable is simple and easily implemented.

1. If no irreversible commitment has been made to the project, is the project avoidable?

If a resource was acknowledged in a previous IRP and continues to be a committed resource in the current IRP, then it should be consider unavoidable. Only resource additions acknowledged in the current IRP should be considered avoidable.

2. What constitutes an irreversible commitment?

A commitment is irreversible as long as the resource remains a committed resource in the most recently acknowledged IRP.

II. Procedural Issues

A. Which of these issues should be the subject of evidentiary proceedings?

B. Should the evidentiary proceedings be generic, or conducted on a utility-by-utility basis?

Staff views the procedural issues as occurring in two stages – the policy stage and the implementation phase.

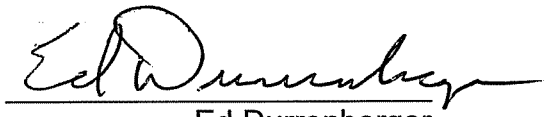
First, there is the matter of establishing policy. This phase of UM 1396 is addressing whether, as a matter of policy, the utilities should be required to determine a renewable resource based avoided cost and, if so, what methodology

should be used to establish the avoided costs. The policy phase determines whether an implementation phase is needed.

If needed, the implementation issues, including the specific calculation of renewable avoided cost rates, should be addressed in separate implementation proceedings. The implementation proceedings should be utility specific evidentiary proceedings.

The present generic docket and schedule where parties provide opening and closing comments is well suited to assisting the Commission to decide the policy matters. Once the policy is decided, the Commission should convene an additional phase with new utility specific implementation proceedings. In these implementation proceedings the utilities will file testimony explaining their calculation of the renewable avoided costs and proposed tariffs. The tariffs and the detailed rate calculations will be subject to an evidentiary proceeding where parties will have an opportunity to review and recommend changes to the new renewable avoided cost rates.

Dated at Salem, Oregon, this 13th day of May, 2011



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CERTIFICATE OF SERVICE

UM 1396 (Phase II)

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 13th day of May, 2011 at Salem, Oregon

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UM 1396 (Phase II)
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