



Portland General Electric Company
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June 28, 2011

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

**Re: UM 1396 – INVESTIGATION INTO DETERMINATION OF RESOURCE
SUFFICIENCY PURSUANT TO ORDER NO. 06-538**

Attention Filing Center:

Enclosed for filing in UM 1396 are an original and five copies of:

Phase II - Reply Comments of Portland General Electric Company

This document is being filed by electronic mail with the Filing Center. An extra copy of the cover letter is enclosed. Please date stamp the extra copy and return to me in the envelope provided. This document is being served electronically upon the UM 1396 service list.

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Richard George", with a long horizontal flourish extending to the right.

J. Richard George
Assistant General Counsel

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1396

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| In the Matter of |) | |
| |) | |
| PUBLIC UTILITY COMMISSION OF |) | PHASE II |
| OREGON |) | REPLY COMMENTS OF |
| |) | PORTLAND GENERAL |
| Investigation into Determination of Resources |) | ELECTRIC COMPANY |
| Sufficiency, Pursuant to Order No. 06-538 |) | |
| _____ |) | |

Introduction

PGE offers the following in reply to the May 24, 2011 comments made by parties in UM 1396, which focused on the elements of the Substantive and Procedural Issues lists contained in Appendix A of Commission Order No. 10-488.

Docket UM 1129 initiated an investigation related to electric utility purchases from qualifying facilities. The Commission's goal in that proceeding was to encourage the economically efficient development of qualifying facilities (QFs), while protecting ratepayers by ensuring that utilities pay rates equal to that which they would have incurred in lieu of purchasing QF power. Commission Order No. 05-584, page 1.

Commission Order No 05-584 in UM 1129 established standard contract rate calculation methodologies, terms, and conditions related to QF power. The order requires PGE and PacifiCorp to calculate avoided costs during the resource deficiency period using a natural gas fired combined cycle combustion turbine (CCCT) identified in the utility's Integrated Resource Plan (IRP) as the proxy resource. The CCCT proxy provides both energy and capacity pricing components. The on-peak prices are based on

energy and the off-peak prices are based on energy and capacity. During the resource sufficiency period, Order No. 05-584 directs the utility to use monthly on- and off-peak forward market prices to calculate avoided costs.

Commission Order No. 10-488 in the UM 1129 progeny docket, UM 1396, specified the method for determining the timing for the start of the resource deficiency period for the utility. The Commission established that the IRP is the appropriate process to determine the timing for a new resource addition, which would signal the start of the resource deficiency period. When the IRP shows a range of on-line years for a major resource, the earliest date signals the start of the resource deficiency period. Also, for a partially acknowledged IRP, the Commission determined that the start of the resource deficiency period should be based on the utility's proposal and parties' responses to that proposal.

Oregon's Renewable Portfolio Standards (RPS) went into effect in 2007. Therefore, the RPS did not exist when the Commission issued Order No. 05-584. In this second phase of UM 1396, the Commission is considering adding a second fixed-price option for avoided cost pricing based on the eligible energy the utility acquires to comply with Oregon's RPS. PGE provided opening comments on May 13, 2011, which addressed the issues lists in Commission Order No. 05-084. PGE continues to support those comments and provides a summary of our proposal below.

I. Summary of PGE's Proposal

PGE believes that the construction of a renewable avoided cost should be based upon a methodology that is similar to that of the standard avoided cost. A resource sufficiency period followed by a resource deficiency period is appropriate. However,

since a renewable avoided cost may enable the utility to avoid building RPS-eligible renewable generation, the utility must receive the renewable energy, which requires transfer of renewable energy certificates (RECs) associated with the energy generated by the QF. Therefore, during the resource deficiency period, the utility should receive the energy bundled with all RECs from the QF.

During the resource sufficiency period, the avoided costs should be based on power market forward curves (current practice). PGE also suggests the development of an option under which the QF provides RECs to the utility during the sufficiency period and receive additional compensation for the estimated value of the RECs. Such an option could be limited to the REC needs of renewable programs. PGE currently acquires RECs to meet obligations for renewable portfolio options available to customers such as Green Source and Clean Wind. Prices for RECs purchased to supply RECs for those programs are available. To price RECs for avoided cost purposes during the resource sufficiency period, PGE suggests using the weighted average price from the most recently available year and applying an inflation factor going forward. In the future, if a liquid forward market for RECs develops, those forward index prices could be used to compensate the QF for RECs during the resource sufficiency period. PGE believes having QFs provide RECs during such periods benefits customers and QFs, as RECs are needed for retail programs, and QFs receive greater long-term certainty regarding REC sales.

PGE suggests the use of the levelized value of the capital and operations and maintenance costs of a proxy wind resource during the deficiency period, similar to the current calculation using a proxy CCCT resource. An adder for RECs is neither

necessary nor appropriate during the resource deficiency period since the avoided cost is based on the bundled value of the renewable generation.

PGE believes the appropriate delineation between the resource sufficiency period and the resource deficiency period is the timing of a major renewable resource addition per the utility's acknowledged IRP, consistent with the methodology established in Order No. 10-488.

II. Eligible Renewable Generation

To receive the renewable avoided cost, generation must qualify under OAR 860-029-0010 and the utility must be able to apply the RECs toward Oregon's RPS. For example, PGE has more than 50 MWa of low-impact hydro each year. However, only 50 MWa may apply toward Oregon's RPS. Therefore, a low-impact hydro QF would not be eligible for the renewable avoided cost. The low-impact hydro QF would receive the standard, non-renewable, avoided cost.

III. Reply to Other Parties' Comments

Interim Non-renewable Resource Basis in Renewable Avoided Cost

Staff takes the position that when the resource deficiency period for a renewable resource starts before the resource deficiency period for the non-renewable resource per the utility's IRP, the avoided cost based on a CCCT is appropriate during this interim period. Staff defines the interim period as the start of the non-renewable resource addition to the start of the renewable resource addition. PGE does not support Staff's position, as we do not believe an interim avoided cost calculation for a renewable resource should be based on a non-renewable resource. Rather, the sufficiency period should extend until the utility indicates in an acknowledged IRP that a major *renewable* resource addition is necessary. To do otherwise is to presume that, for the interim period,

a non-renewable resource is a substitute for a renewable resource. This is neither true in an RPS context, nor in an IRP context.

The IRP process involves long-term planning for resources consistent with forecast loads. The process accounts for applicable RPS-driven needs. In the modeling used by the utility, there is a distinct difference between renewable generation and non-renewable generation. Since resource additions are long-term, the basis for avoided cost and the timing of the resource additions should be consistent. Therefore, the basis for the renewable avoided cost stream should not include an interim non-renewable resource. The timing for a major renewable resource addition should signal the end of the sufficiency period.

Intermittent vs. Base Load Resources

In opening comments, NESCO suggested that there should be two renewable avoided cost rates; one for intermittent generation such as wind and solar, and another for base load generation such as geothermal and biomass. This option is unnecessary and creates additional administrative burdens and complexity for utilities and QFs. The current, non-renewable, fixed price options for avoided cost include energy and capacity, with no reductions for QF specific characteristics such as the ability to dispatch. The QF has the choice to sell RECs separately if they choose the non-renewable avoided cost option. Thus, the base load renewable resource does not need a separate renewable option.

Major renewable resource additions should form the basis for a renewable avoided cost. The predominant renewable resource is large wind. Therefore, large wind is a reasonable proxy for a renewable avoided cost during the resource deficiency period.

That proxy may change if other renewable resources are included in the utility's IRP as major resource additions.

IV. Recommendation

PGE recommends that the Commission adopt a renewable avoided cost fixed price option to be offered by the utilities. The renewable avoided cost should contain the following characteristics:

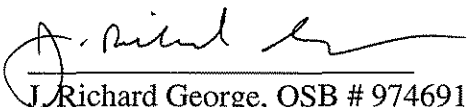
- A resource sufficiency period followed by a resource deficiency period.
- The delineation between the resource sufficiency period and the resource deficiency period is the timing of a major renewable resource addition per the utility's acknowledged IRP, consistent with the methodology established in Order No. 10-488.
- During the resource deficiency period, the utility receives the bundled energy and all RECs from the QF.
- During the resource sufficiency period, the avoided cost is based on power market forward curves (current practice).
- During the resource deficiency period, the avoided cost is based on the levelized value of the capital and operations & maintenance costs of a proxy wind resource, similar to the current calculation using a proxy CCCT resource.

The Commission may also provide an option for the QF to provide RECs to the utility during the sufficiency period and receive additional compensation for the estimated value of the RECs. To price RECs for avoided cost purposes during the resource sufficiency period, the utility shall use the weighted average price of RECs acquired for green programs from the most recently available year and apply an inflation

factor going forward. The utility should be able to limit this option to the REC needs of its renewable portfolio options. If a liquid forward market for RECs develops, the utility may use those forward index prices to compensate the QF for RECs during the resource sufficiency period.

DATED this 28th day of June, 2011

Respectfully Submitted,

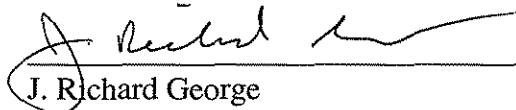
A handwritten signature in black ink, appearing to read "Richard George", written over a horizontal line.

Richard George, OSB # 974691
Assistant General Counsel
Portland General Electric Company

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused Portland General Electric Company's Reply Comments in Phase II in docket UM 1396, to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service.

Dated at Portland, Oregon, this 28th day of June, 2011.



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UM 1396 – SERVICE LIST – 6/28/11

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