BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1396
Phase II

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into determination of resource sufficiency, pursuant to Order No. 06-538	**COMMENTS OF NORTHWEST ENERGY SYSTEMS COMPANY (NESCO)**

In accordance with the Prehearing Conference Memorandum in this proceeding, dated January 21, 2011, as amended by the Administrative Law Judge's Ruling of May 6, 2011, Northwest Energy Systems Company ("NESCO") hereby submits its comments regarding several of the issues propounded in Appendix A to Commission Order No. 10-488, dated December 22, 2010.

Issue No. I.A. **Should the Commission require that each utility determine its avoided cost for a renewable resource? If so, how should the Commission decide what renewable resource would be avoided at what cost?**

Comment: Yes, each utility should determine its own avoided cost for renewable resources. Each utility should be directed to calculate at least two different avoided cost values: one for intermittent resources, such as wind and solar, and a separate one for base load resources such as geothermal and biomass. Base load resources have costs and operating characteristics that are different from those of intermittent resources. The two types of resources also serve different needs on a utility's system. It stands to reason that there should be a different avoided cost rate for each.

NESCO believes that base-load renewable resources have been given insufficient attention lately, given the strong focus on intermittent resources – principally wind. However, the cost of integrating intermittent resources into transmission system has been increasing as those systems have become increasing sated with intermittent generation. The Commission should be doing all it can to facilitate development of more base-load renewables

Issue No. I.A.1. No comment.

Issue No. I.A.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?**

Comment: Yes. Because RECS are divisible from the physical power associated with those RECs for purposes of marketing and sale, there is really only one West-Coast market for RECs. Generators are free to sell RECs to out-of-state utilities. Presently, California dominates that market. The California RPS has created a current deficit of over 6,000 GWh per year of RPS power. The new 33% RSP standard, enacted by the California Legislature in April, 2011 will increase demand for RECs from new renewable resources constructed both inside and outside of California. Decisions in Oregon should not be made in ignorance of this broader market reality.

Issue No. I.A.3. No comment.

Issue No. I.A.4. **When should the avoided cost stream reflect an avoided purchase of an unbundled renewable energy certificate?**

Comment: Again, RECs associated with a renewable energy project are divisible from the physical power produced by that project, at least for marketing and sale. They are really two different products. A utility in need of RECs may, or may not, have a corresponding need for physical power – either intermittent or base load. Conversely, a utility may wish to purchase physical power and leave it the project developer to market the RECS elsewhere. It may be useful to unbundle avoided cost rates to identify separately the price for physical power and the corresponding price for RECs. However, given the influence of California on REC pricing, any administratively determined price for RECs would have to stand the test of the market. Otherwise, most RECs will be claimed by California, as seems to be the case now.

PURPA requires that utilities offer 20 year agreements. The Commission provides that 15 years of fixed pricing is available. Consistent with current practice, the avoided cost of RECs should be based on 15-20 year agreements with at least 15 years of fixed pricing. The cost of short term, as-available RECs is typically far less than RECs available under a long-term fixed price contracts and is really a different product and therefore not a good proxy.

Typically, 15-20 year contracts will be available from new projects. The consideration for 15-20 year prices should be similar to the existing methods used to estimate costs for resource deficiency periods for non RPS power. New projects would be expected to produce RECs eligible under the California RPS and are typically more costly than RECs that are not eligible under the California RPS. In a deficiency period, the proxy should be RECs from new projects which would typically have a choice to sell to the California utilities.

Issue No. I.A.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?

Comment: This question relates to the comment above about separate avoided cost prices for RECs and physical power. It asks whether the QF should be choose to sell its physical power bundled with RECs or its physical power without RECS, so that the RECs may be sold elsewhere. NESCO believes that the QF developer should be given that option.

Issue No. I.A.C and Nos. II.A and II. B No Comment

DATED this 13th day of May, 2011.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **COMMENTS OF NORTHWEST ENERGY SYSTEMS COMPANY (NESCO)** in docket UM 1396, 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 this 13th day of May, 2011.

By Daren Anderson (SP)

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