

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1396

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

PHASE II COMMENTS OF
RENEWABLE ENERGY
COALITION

I. Introduction

The Renewable Energy Coalition ("Coalition") submits these Phase II comments to the Commission's December 22, 2010, Order in this docket. The Coalition has three overriding concerns arising from the issues raised by the Commission: (i) that, if the Commission does determine to establish a new category for avoided-cost prices relating to a renewable resource, the characteristics of such renewable resource must fairly match the characteristics of the type of QFs that contract with Oregon utilities, (ii) that the deficiency period occur at the earlier of (a) the utility's need for power, or (b) the utility's need to acquire RECs pursuant to any jurisdictional state's RPS, and (iii) that there be established a mechanism that provides clear, objective criteria for the determination of when an avoidable resource does in fact become irreversible.

Finally, the Coalition provides comments on the need for an evidentiary hearing on the matters discussed in this filing.

II. Discussion

A. Renewable Resource

The Coalition's concern is that because the new possible category, although denominated "renewable resource," may be an intermittent wind project that would not

fairly reflect the value that base load renewable QFs such as hydroelectric projects on irrigation canals and biomass projects, which are precisely the types of projects owned and operated by Coalition members. The Coalition has no members who own wind projects. If this is the direction the Commission is leaning, the Coalition believes that baseload CCCTs should be the avoidable resource for baseload (non-intermittent) QFs because, as explained in our following comments, a wind resource avoided cost would not provide representative avoided-cost rates. In such circumstances any RECs generated by renewable baseload QFs should, consistent with the Commission's current policy, continue to belong to the QF owner and be available for transfer to the Oregon utility or to any third party for separate compensation.

Throughout the Order and the Appendix there is consistent use of the term "renewable resource." The unstated premise is that the utilities' next renewable resource may be a wind resource or resources and, absent any adjustments for resource-characteristic differences, a wind resource will be a major determinant of avoided-cost prices for a very broad class of renewable QFs. The unfortunate result of such a socialization of avoided costs would likely be the undervaluation of the benefits associated with non-wind baseload QF projects because of their different resource characteristics.

Coalition member resources can be used to illustrate this point. All current members own and operate baseload-type resources, predominantly hydroelectric and biomass projects. This means that the power Coalition members generate can be predicted in advance, thus producing a higher capacity value than values based on wind projects. For this reason, the Coalition prefers to calculate avoided-cost prices based on the cost of a combined cycle CCCT.

Idaho Power Company's witness, M. Mark Stokes, in a similar Idaho Public Utility Commission proceeding, testified in a filing dated March 25, 2011, in Docket No. GNR-E-11-01, to the difference in value between a renewable wind resource on the one hand and baseload renewable hydro and biomass resources on the other.¹ After noting that intermittent wind resources are not as usable by, and thus as valuable to utilities,² Mr. Stokes quantified those differences. Specifically, on page 18 of his testimony, Mr. Stokes noted that, while under the assumptions of his calculations (20-year levelized cost/value per MWh), wind resources have a value of \$54.40 after accounting for integration, while canal-drop hydro QFs have a value of \$88.86, or 163 percent higher than the referenced wind resource.³ Other baseload renewable resources also have values significantly higher than intermittent wind resources.⁴

The Coalition concurs with Idaho Power that one renewable resource cannot fit all; the characteristics of each type of renewable resource must be reflected in the avoided costs a utility pays each type of renewable QF. Using wind resources as the unspoken representative of all renewable resources would severely and unfairly prejudice baseload non-wind renewable resource QFs. In light of this, the Coalition requests that baseload QFs not be lumped into the category of "renewable resources" that reflects the characteristics of intermittent wind resources. Instead, baseload QF resources should be paid for their power on the basis of costs associated with CCCTs because the CCCT avoided-cost prices are more representative of the costs a baseload

¹ Mr. Stokes' testimony is available at <http://www.puc.idaho.gov/internet/cases/elec/GNR/GNRE1101/company/20110328IPC%20STOKES%20DI.PDF>.

² Stokes Direct Testimony at 5-7.

³ Stokes Direct Testimony at 18.

⁴ *Id.*; see also Exhibit 1 of Stokes Direct Testimony.

QF would allow a utility to avoid. Thus, responding specifically to the Commission's substantive question I-B, the Coalition believes that, at a minimum, baseload QFs should be allowed to choose among two avoided cost streams, the renewable avoided-cost stream and the non-renewable avoided-cost stream

Finally, QFs should be allowed to retain the full benefit of any ancillary benefits that flow from construction and operation of their projects. For example, in the past payments to QFs have not been allowed to be adjusted when the QF was able to obtain tax credits and other financial benefits authorized by state or federal law. By the same token QFs should retain the benefit of the value of any RECs generated by their projects; if the utility desires itself to make use of such a benefit it should compensate the QF for it. Thus, in light of the fact that baseload QFs should receive compensation similar if not equal to the avoided-cost stream from baseload CCCTs, such QFs should have an opportunity to transfer their RECs to the utility for additional value or, at the QF's discretion, to sell these RECs to any third party. This result, of course, is consistent with the Commission's overall policy in Order No. 05-1229 in Docket No. AR 495 (Nov. 28, 2005).

B. Determination of "Deficiency Period"

The Coalition submits that the "deficiency" period should occur at the earlier of the utility's need for additional power or when the utility is required to build a renewable plant to acquire renewable attributes for its portfolio.

C. "Irreversible Commitment"

First, no project is truly irreversible; the abandoned WPPSS nuclear plants now decaying silently in southeastern and western Washington are testaments to this fact.

Nonetheless, it is critical that an objective benchmark of irreversibility be established to prevent utilities from gaming the system to their unfair advantage.

For the purposes of this discussion, it is assumed that making an irreversible commitment to the development of a utility resource will establish the precise moment in time when a utility project will no longer be avoidable and thus a new period of resource sufficiency will begin, with the consequence of avoided-cost prices dramatically below those extant in periods of resource deficiency. Utilities have powerful incentives to claim that an irreversible commitment to a project occurs early in the resource's development process, *e.g.*, on the day the utility signs an option to acquire land for a potential future project. Those interested in more fair avoided-cost prices will, of course, argue that the irreversible commitment date occur at a much later point in the resource's development process, thus lengthening the period of resource deficiency. The Coalition believes that the more effort and funds expended in the pursuit of a specific project the higher a project should be on the admittedly imprecise "irreversibility scale."

The Coalition is most concerned that an objective and easily identifiable criterion be established in advance to identify the date of an irreversible commitment and that such commitment be integrated into the utility's timing of avoided cost filings. While many measures might be used, the Coalition suggests that the date of an irreversible commitment should be the date upon which the utility, after acquiring all necessary lands and permits, spends 25 percent of the total anticipated cost for the project. The term "total anticipated cost" reflects all costs that the utility expects to have to expend in order to put the resource on line. That concept is suggested because utilities will have to employ such a figure or figures in regulatory filings such as Integrated Resource Plan dockets and siting proceedings before the Energy Facilities Siting Council and thus

reaching the status of irreversibility will be verifiable objectively. Moreover, in order to avoid both gaming and unfair and unnecessary surprises, the Coalition suggests that utilities developing an avoidable resource be required to provide periodic (at least quarterly) notification of their progress toward the point of irreversibility. This might be accomplished either by periodic (again, at least quarterly) reports on the expenditure progress to date or, alternatively, by giving notice when significant milestones in expenditures (say, at five-percent increments in expenditures to the 25 percent level). Initially, assuming milestones are employed, the Commission should prohibit the reaching of any such milestone prior to the utilities' next two-year filings in order to avoid disrupting QF financing and other development efforts.

D. Potential Evidentiary Issues

Evidentiary hearings are appropriate only when there are discrete, material issues of adjudicative facts, *i.e.*, not policy issues. Virtually all of the issues identified in this filing would appear to be predominantly policy in nature and thus the Coalition submits that evidentiary hearings are probably not needed at this stage of the proceedings.

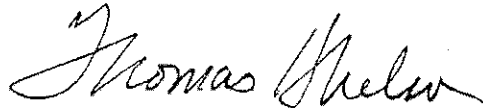
III. Conclusion

The Coalition submits that, if the Commission does decide to create a new category for determining avoided-cost payments to renewable resources and if that category is based on either a proxy or actual intermittent wind project, such payments not be used to compensate baseload hydro and biomass projects which produce much greater capacity benefits to the utility. Rather, payments to hydro and biomass QFs should continue to be based on CCCTs and the QFs should be compensated separately for any RECs the utility might acquire from the QFs while the QFs retain the

option of selling their RECs to any third party. Second, the Coalition urges that the Commission recognize that the period of resource deficiency commences at the earlier of the time that a utility anticipates a need for additional power or at the time the utility needs to acquire RECs pursuant to any jurisdictional state's RPS program. Finally, when a utility's commitment to a project becomes irreversible, thus affecting avoided-cost prices, should be based on objective criteria, preferably the actual expenditure of 25 percent of the total anticipated cost of the project. The utility should be required to provide public notice of its progress toward that level of expenditure.

DATED: May 13, 2011

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas H. Nelson".

Thomas H. Nelson
Attorney for Renewable Energy Coalition

CERTIFICATE OF SERVICE

I certify that I have served RENEWABLE ENERGY COALITION'S PHASE II COMMENTS on all parties of record as set forth on the Commission's website by electronic filing. I further certify that I have served the foregoing by U.S. Mail on the following entities which have not waived paper service (**W** denotes waiver of paper service):

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DATED at Zigzag, Oregon, this 13th day of May 2011.

A handwritten signature in black ink, appearing to read "Thomas Nelson". The signature is written in a cursive style with a large initial "T".

Thomas H. Nelson
Attorney for Renewable Energy Coalition

ZELAYA Michelle J

Subject: FW: For Filing: Renewable Energy Coalition's Phase II Comments
Attachments: REC Comments UM-1396 Phase II FINAL 051311.pdf

From: zigzagtom@gmail.com [mailto:zigzagtom@gmail.com] **On Behalf Of** Thomas Nelson
Sent: Thursday, May 19, 2011 11:40 AM
To: PUC.FilingCenter
Subject: Fwd: For Filing: Renewable Energy Coalition's Phase II Comments

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Tom Nelson

----- Forwarded message -----

From: Thomas Nelson <nelson@thnelson.com>

Date: Fri, May 13, 2011 at 10:58 AM

Subject: For Filing: Renewable Energy Coalition's Phase II Comments

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I am attaching Renewable Energy Coalition's Phase II Comments in the captioned docket. A hard copy will be sent to the two intervenors who have not waived paper service today and to the Commission once verification of electronic receipt has been obtained. It is expected that the Commission's hard copy will be mailed from Welches, Oregon, on Saturday, May 14.

Please let me know if you have any questions.

Thomas H. Nelson

Attorney for Renewable Energy Coalition

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