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July 10, 2009

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

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

Opening Brief of Portland General Electric Company

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Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Richard George", written in a cursive style.

J. Richard George
Assistant General Counsel

JRG:smc
Enclosures
cc: Service List-UM 1396

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1396

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

1 **Introduction**

2 This docket focuses on examining the guidelines for avoided cost pricing
3 methodology and is an extension of the UM 1129 docket. UM 1396 is specifically
4 considering the resource sufficiency and resource deficiency determination used in
5 setting avoided cost prices.

6 **Background**

7 PGE filed both direct testimony and reply testimony in UM 1396. PGE testimony
8 set out how the Commission can reasonably establish resource sufficiency periods, giving
9 Qualifying Facilities (“QFs”) under the Public Utility Regulatory Policies Act of 1978
10 (“PURPA”) the certainty of pricing they need for project development and giving
11 customers assurance that the pricing and timing of QF power purchases is useful in
12 supplying economic power. PGE based its testimony on following the avoided cost
13 methodology established by the Commission in UM 1129.

14 The objective of this UM 1396 investigation is to clarify the application of a time
15 period where the utility avoided costs are market-based and when combined cycle

1 combustion turbine (“CCCT”) costs are appropriate in the avoided cost price stream. A
2 successful outcome from this docket is a Commission-approved avoided cost
3 methodology that yields appropriate pricing to QFs, and encourages development through
4 standardized pricing and purchases. Further, the avoided cost determination
5 methodology should be as simple as possible, and continue to make the QF contract
6 process understandable.

7 **Summary of Argument**

8 PGE presented through its testimony reasons for a resource sufficiency period that
9 are based on two foundational considerations: first, avoided costs should reflect those
10 costs that are avoided by the purchase of power from a QF; and second, CCCT costs are a
11 reasonable proxy for avoided costs only after a reasonable time period representing
12 CCCT construction lead times. While the avoided cost methodology prescribed by the
13 Commission relies on CCCT costs for long-term avoided costs, flexibility in establishing
14 the exact start of the resource deficiency period is necessary to reflect resource decisions
15 developed in the utility Integrated Resource Planning process (“IRP”).

16 In the alternative, PGE suggests that the Commission might employ even a more
17 simplified alternative to IRP reference. The resource sufficiency period could simply be
18 effectively established as a default term of 48 to 54 months from the filing date of an
19 avoided cost update, reflecting the typical construction period of a new CCCT. *See*
20 PGE/100, Kuns-Drennan at 10. This sets the resource sufficiency and deficiency periods
21 consistent with the timing for the addition of a CCCT and its associated avoided costs.
22 We continue to believe this is an appropriate and much simpler approach for both utilities

1 and QFs. Avoided costs are based on the CCCT costs after the sufficiency period.

2 During the sufficiency period, avoided costs are based on market prices.

3 Testimony of the Industrial Customers of NW Utilities (“ICNU”), however,
4 demonstrates that it is possible to make the determination of resource sufficiency periods,
5 and thus avoided costs, very complex. *See* ICNU/100, Falkenberg at 3-13. Further,
6 ICNU indicates that avoided costs should thoroughly consider a number of complex and
7 challenging factors such as load forecasts and generation resource capacities. *Id.* PGE’s
8 testimony explains that the utility’s IRP process is a logical and public process that
9 gathers all the relevant factors such as load forecasts, resource plans and power market
10 information into one place. *See generally* PGE/100 Kuns-Drennan at 5-10. Also,
11 updates to the avoided cost are required following acknowledgment of an IRP. OAR
12 860-029-0080. Thus, the IRP informs avoided costs with timely and public data. By
13 looking to the IRP analysis, avoided costs will appropriately reflect the timing of new
14 resource additions. PGE does not believe that the Commission’s intent with this docket
15 was to create another, non-integrated, resource planning process. PGE also notes that
16 Commission Staff and PacifiCorp generally agree with PGE on use of the IRP to
17 determine resource sufficiency/deficiency periods. *See generally* Staff and PacifiCorp
18 Opening Briefs.

19 The critical test for the Commission is to maintain avoided cost pricing standards
20 that appropriately encourage economic QFs. In this way, the Commission is able to meet
21 the goal that pricing needs to reflect avoidable costs. If pricing is too high or low relative
22 to the actual avoided cost value, then the pricing methodology is not properly functioning

1 to encourage development while maintaining customers in an economically indifferent
2 position.

3 A proper avoided cost determination aligns QF and utility customer interests. It
4 also provides economic price signals that are clear and direct, allowing QFs to make
5 decisions regarding pricing terms in a straightforward manner. This is particularly true
6 for QFs using the standard QF contracts and fixed pricing such as that set out in PGE's
7 Schedule 201, Avoided Costs.

8 **Argument by Issue**

9 **Issue 1: How are periods defined?**

- 10 • **If a resource sufficiency period is established, how often and for what**
11 **reasons should the sufficiency determination be revisited?**

12 The concept of resource sufficiency recognizes that avoided costs must reflect those
13 power supply costs that are avoidable as the result of QF-supplied power and that power
14 sources to serve load include utility assets and power purchases to create a supply
15 portfolio. The IRP planning process is the best basis from which to determine a resource
16 sufficiency period. There is no logic in having a different methodology or set of resource
17 timing assumptions. Thus, the resource sufficiency period should be established using
18 the same frequency and timing for filing IRPs—two years from previous IRP
19 acknowledgement orders, per IRP Guideline 3; OPUC Order No. 07-002 at 9.

20 ICNU expresses concern that reference to the IRP process potentially leaves
21 utilities with too much discretion in setting the resource sufficiency period and is costly
22 for QFs to participate in. ICNU/200, Falkenberg at 1-2. PGE does not find ICNU's
23 concerns to be material given that utility discretion is constrained by avoided costs being
24 published by the utility and subject to Commission review. If parties know the basis for
25 avoided costs are linked to the IRP process, then participation costs are essentially limited

1 to one well attended, comprehensive docket. QFs can participate, or to minimize
2 participation costs can rely on an already robust public process with strict Commission
3 guidelines.

4 **Issue 2: What is the definition of resource sufficiency/deficiency for avoided cost**
5 **purposes?**

- 6 • **In what ways does resource sufficiency and deficiency differ from**
7 **load/resource balance determinations?**

8 PGE's proposal to use the IRP process as the reference point for avoided costs
9 provides a consistent definition and public source of information for resource
10 sufficiency/deficiency determinations for avoided cost purposes. The IRP process
11 considers utility load/resource balance and thus sufficiency and deficiency determinations
12 draw upon such information in PGE's proposal.

13 As mentioned above, ICNU makes a number of assertions that an IRP is not
14 appropriate for avoided costs. ICNU criticizes reliance on the IRP because a utility could
15 deviate from the IRP in the future and resource need determinations may be too
16 subjective. ICNU/200, Falkenberg at 2. PGE does not agree with ICNU. In both QF
17 avoided cost price setting proceedings and the IRP process, the same resource need
18 assumptions should be used to avoid having potential conflicts (regardless of benefit to
19 QFs or ratepayers). Since IRPs are filed two years after each acknowledgement order,
20 resource need assumptions are regularly updated to reflect actual utility resource actions.
21 In practice, once the utility has an approved avoided cost filing, those avoided costs are
22 available to QFs to use to enter into long-term contracts until a revised avoided cost filing
23 is approved. If a utility's plans changed such that new resource additions were delayed,
24 avoided costs would change when refiled avoided costs were approved. Moreover,
25 resource need determinations in an IRP process are publicly scrutinized in light of

1 Commission guidelines. Any subjectivity is mitigated by such public vetting and
2 extensive Commission review.

3 The Commission's choices are to: (1) assume that there is no resource sufficiency
4 period as proposed by ICNU, meaning that avoided costs will be based on CCCT costs
5 from the onset of the term of any QF contract; or (2) assume a resource sufficiency period
6 is applicable for the time period where it is not possible to avoid CCCT costs. Clearly,
7 the Commission has recognized that it is necessary to differentiate the avoided cost
8 calculation to reflect a utility's resource position for the sake of accuracy. *See* Order No.
9 06-538 at 54. If the Commission had intended that there be no resource sufficiency
10 period, then this exercise to determine such a period would not have been necessary. The
11 second approach is more appropriate.

12 **Issue 3: What loads were used to compute the load forecast?**

- 13 • **Are the load forecasts up to date?**
- 14 • **Are forecasts different that are used for the utility's Integrated Resource**
15 **Plan (IRP), if so, how?**
- 16 • **Is the load forecasting methodology currently used by the utilities**
17 **accurately forecasting loads?**

18 PGE believes that the IRP is the appropriate source for accurate load forecast
19 information. No parties propose that alternative load forecasts be developed.

20 **Issue 4: Is it appropriate to determine resource sufficiency for avoided cost filings**
21 **in a different manner than is used to determine resource needs for the IRP planning**
22 **process?**

- 23 • **How is the IRP load and resource determination (forecast) relevant to the**
24 **avoided cost sufficiency determination?**

25 An independent analysis from that in the IRP is not appropriate. The IRP presents
26 current information about the timing for new resource additions (based on load and
27 resource forecasts). This information is relevant to avoided costs, in that such costs
28 should reflect actual avoided resources in order to be accurate.

1 ICNU recommends that if an IRP is used, a sufficiency determination must be
2 based on the last acknowledged IRP and that IRP updates should not be relied upon.
3 ICNU/200, Falkenbeg at 3. ICNU's recommendation is a continuation of the idea that no
4 resource sufficiency period is likely to be relevant for avoided costs. Practically, the
5 rules require that avoided costs be updated at least every two years to ensure that avoided
6 costs are current enough to enable potential QFs to make project development decisions,
7 but are not updated so frequently as to make avoided cost pricing difficult for QFs to
8 work with. Moreover, PGE believes the best readily available information should be
9 used, and that is resource forecast information as regularly updated in the IRP process.

10 **Issue 5: Must a utility be both capacity and energy deficient to be in a position of**
11 **resource deficiency?**

- 12 • **Can a utility that is chronically short on capacity and continuously building**
13 **capacity be considered sufficient?**

14 A utility may not necessarily be capacity and energy deficient from a planning
15 perspective to be considered resource deficient for avoided cost purposes. A utility could
16 be building capacity and energy and be resource sufficient in the near term, in that the
17 actual avoidable resource costs are market costs. Even though a utility may be building
18 capacity, the avoidable resource is the market until the resource is built. As the

19 Commission stated:

20 "The calculation of avoided costs when a utility is in a resource deficient
21 position should reflect longer term resource decisions that are subject to
22 deferral or avoidance due to QF power purchases. Although a utility may
23 acquire market resources as demand gradually builds, at some point the
24 increase in demand warrants the utility making plans to build or acquire
25 long-term generation resources. At that point, calculation of avoided costs
26 should reflect the potential deferral or avoidance of such generation
27 resources." Order No. 05-584, at 27

28 *See also* PGE's testimony on this issue, PGE/100, Kuns – Drennan at 11-12.

1 **Issue 6: How should resource energy and capacities be determined?**

- 2 • **How should a utility forecast QF capacity, and how does QF capacity factor**
3 **in to the determination of the utilities' resource position for the purposes of**
4 **avoided cost calculations?**
5 • **Should capacity forecasts impact the sufficiency/ deficiency periods?**

6 As discussed above, PGE believes that generating and power supply resource
7 capabilities should be IRP-derived with the overall results of the IRP planning analysis
8 establishing the resource deficiency point.

9 QF resources that are known and measurable should be included in the IRP, but
10 utilities should not arbitrarily forecast some level of QF capacity. If stakeholders have
11 issues with utilities not forecasting QF capacity in the IRP, such issues can be vetted
12 within that process. To the extent capacity is forecasted in the IRP, such forecasts may
13 impact the resource needs evaluation, which will, in turn, affect the
14 sufficiency/deficiency period determination.

15 **Issue 7: What resources go into the determination of sufficiency/deficiency?**

- 16 • **Is it appropriate to include short-term firm purchases in base load capacity**
17 **when calculating resource sufficiency?**
18 • **Should only existing resources be included in determining the resource**
19 **position?**
20 • **Should the choice of the type of avoided costs resource affect the determination**
21 **of resource sufficiency?**
22 • **Is resource sufficiency and deficiency applicable only to “firm” supply**
23 **resources?**
24 • **How does the Oregon Renewable Portfolio Standard (RPS) factor in to the**
25 **determination of resource sufficiency?**

26 Please see PGE's testimony, PGE/100, Kuns – Drennan at 13, with respect to this
27 issue. Generally, PGE believes that the portfolio of resources included in the IRP process
28 and action plan are the appropriate resources that should go into the determination of
29 utility resource sufficiency/deficiency periods. PGE supports inclusion of short-term
30 purchases in base load capacity when calculating resource sufficiency, as they are part of

1 the available resource supply portfolio. PGE disagrees that only existing resources
2 should be included in determining resource position. Known and measurable resources
3 should be included, since, if a resource is not avoidable, i.e., it is deemed under
4 construction, it should be included. With respect to the question of whether the choice of
5 type of avoided cost resource affects the determination of resource sufficiency, PGE
6 notes that it does not, as the resource sufficiency period should be determined by the
7 forecasted load growth as part of the IRP. Furthermore, the Commission has already
8 defined the proxy avoided cost resource as a CCCT.

9 Resource sufficiency and deficiency should not be applicable only to “firm”
10 supply resources. Non-firm resources and intermittent resources, such as wind, should be
11 included since they are incorporated in the IRP. The Oregon RPS factors into the
12 determination of resource sufficiency because it is addressed in the IRP and affects
13 resource need forecasts and decisions.

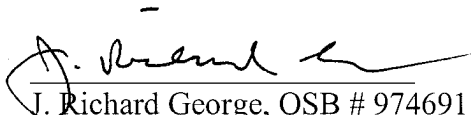
14 **Summary and Conclusion**

15 PGE strongly believes that the IRP should be relied upon to determine utility
16 resource sufficiency/deficiency for purposes of calculating avoided cost prices for QFs.
17 In the alternative, PGE proposes the Commission adopt a presumptive resource
18 sufficiency period of 48 to 54 months, which reflects the planning and construction time
19 for a CCCT and provides certainty in the avoided cost process. PGE also proposes that
20 the Commission be able to review such a fixed resource sufficiency period for
21 reasonableness and make adjustments if necessary to more accurately reflect avoidable
22 costs.

1 PGE does not support ICNU's proposal to effectively eliminate the resource
2 sufficiency period. PGE believes the Commission intended that such a period exist and
3 be utilized to achieve the goal of most accurately determining a utility's avoided costs.
4 By striving for such accuracy, the Commission is applying the goal of PURPA to
5 encourage QF development without causing undue utility customer harm.

DATED this 10th day of July, 2009

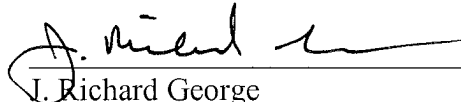
Respectfully Submitted,


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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused Portland General Electric Company's Opening Brief 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 10th day of July, 2009.



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