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July 23, 2009

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
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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:

Reply Brief 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 upon the UM 1396 service list.

Thank you in advance for your assistance.

Sincerely,

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 OREGON Investigation into Determination of Resources Sufficiency, Pursuant to Order No. 06-538	))))))))	REPLY BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY

Portland General Electric ("PGE"), Commission Staff, and PacifiCorp support the Integrated Resource Plan ("IRP") process as the appropriate means to determine the start date of the resource deficiency period. *See generally* PGE, Staff, and PacifiCorp Opening Briefs. Avoided costs are based on market prices during the sufficiency period, and combined cycle combustion turbine ("CCCT") costs after the sufficiency period. Although Idaho Power uses a different methodology, it reserves the right to use the methodology used by PacifiCorp and PGE and states, "[t]he Company agrees with the approaches articulated by the Portland General Electric Company and Pacific Power and Light." Idaho Power Company's Opening Brief at 2.

PGE wishes to re-emphasize that the IRP provides the best source of information on loads and resource needs and should be informative of the separate avoided cost tariff filings with respect to the sufficiency/deficiency periods. The IRP is conducted under strict guidelines, provides an open forum to evaluate data and forecasts, and will yield a resource sufficiency/deficiency determination that best approximates actual avoided resource cost pricing for each utility. This will ensure that the objectives of the Public Utility Regulatory Policies Acts ("PURPA") are met—mainly, to encourage Qualifying

Facility ("QF") development through appropriate avoided resource cost price signals that do not cause undue ratepayer harm. 16 U.S.C. §824a-3.

PGE would like to address certain statements, proposals, and concerns raised by ICNU in their Opening Brief filed with the Commission on July 10, 2009. ICNU's Brief, although confusing, also contains several inaccurate and misleading statements.

In particular, ICNU claims utilities have "disadvantaged Qualifying Facility (QF) developers by paying them rates based on the assumption that the utilities had sufficient resources." ICNU Opening Brief at 2. PGE disagrees with this statement on several levels. First, during the sufficiency period, the utility has access to sufficient resources, including, but not limited to, market purchases. Second, during the sufficiency period QFs are appropriately paid market rates, not some form of discounted rate – market rates are indicative of the avoided cost during the sufficiency period. Also, QFs are paid CCCT costs for the majority of the term of a typical contract under PGE's Schedule 201. For example, by signing a 15 year fixed price contract on Jan. 1, 2010, the QF would receive three years of market rates and 12 years of rates based on the costs of a CCCT.[1] PGE does not believe QFs are disadvantaged when they receive pricing that accurately reflects the avoided resources. Also, a QF desiring fifteen years of pricing based on a CCCT could sign a contract in 2010 with delivery commencing in 2013.

Although PGE's proposed methodology for determining resource sufficiency/deficiency dates is consistent with past practices, ICNU also states, "PacifiCorp and PGE have proposed to change their historic methodologies and to instead use the target dates for when they are planning to acquire new resources in their

[1] Based on Advice No. 09-16, Schedule 201 Qualifying Facility Information Update filed on July 10, 2009 and with an effective date of August 26, 2009.

integrated resource plans ("IRPs")". Opening Brief of ICNU at 2. ICNU's statement, is frankly, inaccurate. PGE's proposed approach is essentially the same as its historic practice for setting avoided cost prices. *See, e.g.,* UM-1129 – PGE/300 Kuns-Drennan/15 Lines 8-14. In that testimony from 2006, PGE described its practice of setting avoided cost rates: "A simple review of the timing for our resource sufficiency period supports the 2009 date for the end of the resource sufficiency period from an economic avoided cost perspective. From an avoidable cost standpoint, costs of a CCCT are not avoidable in the near-term. The CCCT cannot be planned, constructed or used to avoid costs in the near term. Other economic supply options are available and thus avoidable. The avoidable costs (that is costs saved as a result of supply provided by the QF) in the sufficiency period is the cost of market-based purchases." *Id.*

ICNU further mischaracterizes PGE by stating, "...many of these resources were acquired in a manner inconsistent with the utilities' IRPs or the Commission's competitive bidding rules." ICNU Opening Brief at 6. PGE has, in fact, acquired resources consistent with our IRP and the Commission's competitive bidding rules. ICNU offers no examples of any inconsistent resource acquisitions by PGE.

ICNU summarizes its proposal by stating "that PGE and PacifiCorp be considered resource deficient if they are unable to meet their peak demand." ICNU Opening Brief at 3. ICNU provides no examples of when this has ever occurred and PGE believes, given appropriate and economic utility resource planning, that it never will occur. PGE's resource portfolio has sufficient capacity to meet its peak needs and PGE has never experienced brownouts or blackouts because of lack of capacity during peak periods. If ICNU is implying that utilities should ignore potential front office transactions that include capacity, then ICNU is ignorant to the reality of economic procurement. The Commission has described it thus: "[a]lthough a utility may acquire market resources as demand gradually builds, at some point the increase in demand warrants the utility making plans to build or acquire long-term generation resources. At that point, calculation of avoided costs should reflect the potential deferral or avoidance of such generation resources." Order No. 05-584, page 27. *See also* Staff/100 Durenberger/8 lines 2-12 (recognizing role of market in resource planning for peak capacity needs).[2]

Finally, ICNU's proposal should be discarded because it advocates for a new methodology that does not match utility resource planning (i.e., the IRP), creates a redundant and potentially conflicting process and simply does not recognize the reality and lumpiness of resource additions. ICNU's proposal would effectively create a capacity deficiency standard. As PGE previously stated, "a capacity deficiency standard as the measure of resource sufficiency/deficiency would not reflect avoidable costs and would be equivalent to a utility being resource long all the time to be considered resource sufficient. Utilities typically would not build resources to this standard; the IRP process develops the comprehensive plan from which a sufficiency period can be determined." PGE/100 Kuns - Drennan/12, lines 7-11. Lastly, ICNU ironically suggests its approach will provide "additional protection" for ratepayers. ICNU Opening Brief at 11. In reality, its proposal could harm utility customers because it would effectively never result in a deficiency period, thus avoided cost rates would not reflect the utilities actual avoided resources and QFs would potentially be subsidized with higher than avoided

[2] Additionally, ICNU's proposal seems to ignore that the foundational definition of avoided costs provided by federal PURPA regulations includes capacity. The FERC definition of avoided costs is as follows: "the incremental costs to an electric utility of electric energy *or capacity or both* which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source." 18 CFR 292.101(6) [emphasis added].

costs-or as PURPA prohibits, rates which exceed the incremental cost to the electric utility of alternative electric energy. 16 U.S.C. §824a-3(b).

DATED this 23rd day of July, 2009

Respectfully Submitted,

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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 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 23rd day of July, 2009.

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