BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1396

In the Matter of)	
THE PUBLIC UTILITY COMMISSION OF)	
OREGON)	OPENING BRIEF OF THE
)	INDUSTRIAL CUSTOMERS OF
Investigation into determination of resource)	NORTHWEST UTILITIES
sufficiency, pursuant to Order No. 06-538.)	
)	

I. INTRODUCTION

Pursuant to the June 15, 2009 prehearing conference order in this docket, the Industrial Customers of Northwest Utilities ("ICNU") submits this Opening Brief urging the Oregon Public Utility Commission ("OPUC" or the "Commission") to adopt a resource sufficiency calculation for determining utility avoided costs that is consistent with the utilities' actual resource acquisition practices. Currently, the avoided cost of both PacifiCorp and Portland General Electric Company ("PGE") are significantly impacted by whether each utility is considered resource "deficient" or resource "sufficient." PacifiCorp's and PGE's methodologies have consistently shown that the utilities are resource sufficient while they are actually building and/or purchasing significant amounts of new energy and capacity resources. These methodologies have been shown to be inaccurate, which has benefited the utilities by allowing them to acquire and build their own generation resources, while at the same time they have

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disadvantaged Qualifying Facility ("QF") developers by paying them rates based on the assumption that the utilities had sufficient resources.

The utilities currently determine whether they are resource sufficient based on a comparison of their capacity and energy needs with their available resources. In this proceeding, 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 integrated resource plans ("IRPs"). The utilities' proposals are likely to produce results similar to their current methodologies and could even increase the period in which the utilities consider themselves resource sufficient. The date the utilities include in their proposed IRPs for building a new combined cycle combustion turbine ("CCCT") is often highly controversial, has not been acknowledged by the Commission in recent IRPs, and rarely matches the time when the utilities actually acquire capacity resources.

While ICNU is generally supportive of using information from the utilities' actual resource acquisition plans, ICNU opposes the utilities' proposals because they would maintain the disharmony between resource sufficiency periods and actual utility practice. Using IRPs is unlikely to improve the accuracy of forecasting the utilities' resource position because the utilities have not always followed their IRPs, and critical aspects of their IRPs have often not be acknowledged. This would continue the

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Staff originally proposed a confusing and complex methodology that was likely to be more harmful to QFs than the utilities' own proposals. ICNU/200, Falkenberg/3-8; ICNU/201, Falkenberg/2-3. Staff now essentially agrees with PacifiCorp's and PGE's positions on all issues in this proceeding. Staff Opening Brief at 1. Accordingly, ICNU's Opening Brief will not address the details of Staff's original proposals.

current heads the utility wins and tails the QFs loose by utilizing the long sufficiency

period in the IRP, while allowing the utilities to acquire significant capacity resources

during the same time period they claim to be sufficient. Further, although reliance on the

IRP process does not provide parties with the right to a hearing, it is still time consuming,

cumbersome and costly for QFs to participate in.

The Commission should either abandon the distinction between resource

sufficiency and deficiency periods, or adopt ICNU's new methodology for determining

whether a utility is resource sufficient. ICNU's methodology more accurately

corresponds to how the utilities have actually acquired new resources. Specifically,

ICNU proposes that PGE and PacifiCorp be considered resource deficient if they are

unable to meet their annual peak demand. ICNU's proposal improves the forecast for

resource sufficiency and deficiency periods because utility resource acquisitions have

been more in line with their estimates of their capacity needs than either their energy

needs or their IRPs. Essentially, the Commission should not replace one broken and

inaccurate methodology with an even more inaccurate and arbitrary methodology, but

should instead focus on when the utilities actually need capacity resources.

II. BACKGROUND

This proceeding's genesis is in the Commission's investigation into

electric utility purchases from QFs in Docket No. UM 1129. The Commission opened

UM 1129 because of "concerns raised by industrial and rural developers and operators of

QF projects about" rates, contracts and other problems associated with entering into QF

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contracts with Oregon utilities. <u>Re Staff's Investigation Relating to Elec. Util. Purchases</u> from QFs, Docket No. UM 1129, Order No. 05-584 at 4 (May 13, 2005).

The Commission determined that avoided cost calculations for PacifiCorp and PGE should be differentiated to reflect the utility's resource position. <u>Id.</u> at 27. The Commission rejected the proposals of QFs and the Oregon Department of Energy to require PacifiCorp and PGE to use a methodology used by Idaho Power Company that calculates avoided cost rates regardless of their resource status. The Commission concluded that there was little evidence that the methodology "is a substantively better approach than the historical methodology to calculate avoided cost when a utility is in a resource deficient position." <u>Id.</u> at 26. The Commission adopted a two-tier approach to avoided costs which provides QFs a full capacity payment based on a proxy resource during periods of utility resource deficiency, and a lower market-based capacity payment during periods of utility resource sufficiency. See id. at 27-28.

In the compliance phase of UM 1129, the parties addressed the issue of when a utility should be considered resource deficient, but the Commission deferred the issue to this proceeding. Docket No. UM 1129, Order No. 06-538 at 54 (Sept. 20, 2006). PacifiCorp proposed that the utility should only be considered resource deficient if its forecast showed insufficient resources to meet both its annual system energy peak and the highest monthly capacity requirement of the year. Id. at 51. PacifiCorp argued that its proposal was consistent with its IRP, which did not show the Company adding a new CCCT until 2009 or 2012. Id. at 52. Staff supported PacifiCorp based on the understanding "that a utility would not be likely to acquire a base load resource until it

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forecasts both a significant annual energy deficit and a monthly capacity deficit in the

same year." Id. at 51. ICNU, Sherman County and J.R. Simplot argued that PacifiCorp

should be considered resource deficient because the Company was resource deficient for

the summer peak and the Company was building new capacity, acquiring new resources,

and engaging in substantial short-term purchases. <u>Id.</u> at 52.

The Commission's decision to defer the issue of when a utility should be

considered sufficient essentially allowed PacifiCorp and PGE to use their methodologies

for determining when the utilities were resource deficient. This resulted in avoided cost

filings that have typically predicted that these utilities would be resource deficient for the

first three to five years of the avoided cost period. For example, PacifiCorp's July 12,

2005 avoided cost filing showed the utility resource deficient from mid-2005 to the end

of 2009, and its current avoided cost tariffs show a resource deficiency from mid-2007 to

2011 period. Docket No. UM 1129, PacifiCorp Compliance Filing, Schedule 37-4 (July

12, 2005); PacifiCorp Schedule 37-7. PGE's 2005 avoided cost filing included a three

and half year sufficient period until the end of 2008, and its current tariff shows a

resource sufficiency period of mid-2007 to the end of 2011. Docket No. UM 1129, PGE

Compliance Filing, Schedule 201-8 (July 12, 2005); PGE Schedule 201-7.

Despite claiming to be resource sufficient, both PacifiCorp and PGE have

acquired significant amounts of new capacity resources during the sufficiency periods

identified in their avoided cost filings. PGE acquired the 406 megawatt ("MW") Port

Westward gas plant in 2007, and PacifiCorp brought the 580 MW Lakeside gas plant on-

line in 2007 and acquired the 520 MW Chehalis gas plant in 2008. Both PGE and

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PacifiCorp have also entered into certain capacity contracts over this period of time.

Despite the presumption that both utilities were energy sufficient, they have also acquired

a significant amount of new wind generation, which is primarily an energy resource. In

addition, many of these resources were acquired in a manner inconsistent with the

utilities' IRPs or the Commission's competitive bidding rules. PPL/102 (ICNU Response

to PacifiCorp Data Request 1.12).

III. LEGAL STANDARD

The Commission's review of resource sufficiency issues is governed by

the federal Public Utility Regulatory Policies Acts ("PURPA") and its state counterpart.

PURPA requires electric utilities to purchase power from QFs at the utilities' avoided

costs, which must be just and reasonable for the utilities' customers. 16 U.S.C. § 824a-

3(b)(1). Avoided costs should be based on a utility's incremental costs that, but for the

purchase from the QFs, the utility would generate or purchase from another source. <u>Id.</u> at

§ 824a-3(d); ORS § 758.515(2)(b). Oregon law and the Federal Energy Regulatory

Commission ("FERC") rules require utilities to purchase electricity from QFs based on

the utilities' full avoided cost. ORS § 758.525; FERC v. American Elec. Power Serv.

Ass'n, 461 U.S. 402, 406 (1983). Under PURPA state utility commissions are delegated

the role of implementing PURPA and calculating the appropriate avoided costs. 16

U.S.C. § 824a-3(f).

Oregon and federal mandates are intended to benefit both ratepayers and

QF developers. PURPA was passed "to encourage the development of cogeneration and

small power production facilities." <u>FERC</u>, 461 U.S. at 404. The mandatory purchase

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requirements were necessary because Congress recognized that electric utilities were

reluctant to purchase power from non-traditional facilities. <u>Id.</u> at 404-05. Similarly, the

goal of the Oregon PURPA was to increase the marketability of QF electric sales and

"[p]romote the development of a diverse array of permanently sustainable energy

resources" ORS 758.515. The Commission has recognized these goals, finding that

it must encourage:

the economically efficient development of qualifying facilities in Oregon.

It is the goal of the Commission to ensure desired qualifying facility development through stable and predictable actions by the Commission, accurate price signals, and full information to developers and the public

regarding power sales requirements.

Docket No. UM 1129, Order No. 05-584 at 9 (citing the 1988 OPUC report to the Oregon

Legislature).

The Commission must set avoided costs with the goal of balancing the

interests of ratepayers (which ultimately pay for the costs of QF power) with QF

developers (which must be provided the maximum economic incentives for the

development of QFs). Re the Investigation into Elec. Util. Tariffs for Cogeneration and

Small Power Prod. Facilities, Docket No. R-58, Order No. 81-319 at 3 (May 6, 1981).

Fundamentally, the Commission's goal is "to encourage the economically

efficient development of [QFs], while protecting ratepayers by ensuring that utilities pay

rates equal to that which they would have incurred in lieu of purchasing QF power."

Docket No. UM 1129, Order No. 05-584 at 1.

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IV. ARGUMENT

1. The Commission Should Adopt ICNU's Proposed Methodology For Determining Resource Sufficiency/Deficiency Periods

The Commission should remedy the current broken system for determining resource sufficiency/deficiency periods with a methodology based on a utility's ability to meet its capacity needs based on its annual peak demand. ICNU/100, Falkenberg/2. Energy needs should not be considered in resource sufficiency/deficiency forecasts because the utilities do not rely upon the energy deficits when actually deciding to acquire resources. Id. at Falkenberg/4-5. The use of capacity needs to determine resource sufficiency/deficiency periods would more accurately reflect utility practices, while protecting ratepayers from paying higher avoided costs when utilities are truly projecting a resource deficiency. Id. at Falkenberg/8.

ICNU proposes a three-tier approach for determining utility resource deficiency/sufficiency periods. <u>Id.</u> at Falkenberg/6-7. The following chart explains ICNU's three-tier approach that is described in Mr. Falkenberg's testimony:

Utility Resource Position	Avoided Cost Prices
Both peak demand and reserve sufficient	The cost of power in the utilities' power cost models
Peak demand sufficient, but reserve deficient	The cost of standard product purchases or new peaking plants
Peak demand deficient	The cost of a combined cycle plant

Id. at Falkenberg/7.

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Under ICNU's proposal, utilities would be considered sufficient when

they have resources to meet their peak demand, plus their planning reserves. The use of

the annual peak is appropriate because the "failure to meet the annual peak implies a high

likelihood of failure to meet the demand hundreds of hours during the year." Id. at

Falkenberg/2. The utilities' reserve margin, as established in their most recent IRP,

should also be recognized to provide a cushion over their actual forecasted need. Id. at

Falkenberg/2-3. Considering reserves is appropriate because utilities' planning process

for acquiring new resources typically includes reserve margins. See Re PacifiCorp,

Docket No. LC 42, Order No. 08-232 at 2, 20, 28 (Apr. 24, 2008); Re PGE, Docket No.

LC 43, Order No. 08-246 at 20 (May 6, 2008).

Energy deficiencies should not be included in the consideration of

resource sufficiency/deficiency because they are not a major factor in determining when

the utilities acquire new resources. In UM 1129, Staff supported the inclusion of energy

in the resource sufficiency/deficiency analysis because "a utility is unlikely to acquire a

base load resource unless it forecasts a significant annual energy and capacity deficit."

Docket No. UM 1129, Staff/1200, Galbraith/4 (Direct Testimony). The assumption that a

utility would not acquire a base load resource unless it is both energy and capacity deficit

has been proven wrong and should not be used to calculate avoided costs. PacifiCorp and

PGE have "both acquired substantial capacity and energy resources during the first years

of their claimed resource 'sufficiency.'" ICNU/100, Falkenberg/4. The "designation of

being resource sufficient, based on the avoided cost methodology, has little or nothing to

do with the utilities' actual resource acquisition decisions." <u>Id.</u> at Falkenberg/5.

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Energy deficiencies are meaningless in the resource acquisition process

because these deficiencies can easily be cured and the inclusion of energy considerations

can produce irrational results. Utilities can simply increase the use of older, inefficient

gas peaking utilities to avoid an energy deficiency. Id. at Falkenberg/9. Increasing

output cannot, however, address a capacity deficit. Id. Considering energy needs can

also show a utility as being "sufficient," but still failing to meet its peak demand for

hundreds of hours per year. For example, a utility may have sufficient energy during off-

peak hours, but still experience brownouts or blackouts because of a lack of capacity

during peak periods. Id. at Falkenberg/9-10. This is especially true as the utilities

acquire significant amounts of energy rich, but capacity poor, wind generation. If the

Commission continues to allow the utilities to consider energy, then the resource

"deficiency" period for avoided costs purposes will become even more irrelevant to the

utilities' actual capacity acquisition plans as utilities increase their reliance upon wind

generation.

ICNU's specific proposal to more accurately set avoided costs will benefit

both QF developers and ratepayers. For years, QFs have been harmed because QFs were

not paid the full avoided costs, even when utilities had a lack of capacity to meet their

peak demands and acquired significant capacity resources to meet these needs. Id. at

Falkenberg/4. Large QFs have been particularly harmed by the inaccurate determination

of resource sufficiency/deficiency periods. The filed avoided costs are the starting point

for negotiations between the utility and large QFs over 10 MWs. <u>Id.</u> at Falkenberg/5.

The Commission has set guidelines for the negotiation process for the avoided costs for

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large QFs. Docket No. UM 1129, Order No. 07-360 (Aug. 20, 2007). Many of these guidelines, however, assume that the negotiations compare the QF cogeneration facility to the utility's proxy resource in a resource deficient period. <u>Id.</u> Appendix A, Guidelines 9, 10, 13, 14. Since the assumption for negotiations is that the utility is in a resource deficient position, large QFs experience difficulties negotiating with utilities when the avoided costs are for the sufficiency period (which uses market prices instead of the proxy resource). See ICNU/100, Falkenberg/6.

ICNU proposes that prices be set based on the utilities' power cost models when they are peak demand and resource sufficient. This introduces a new protection for ratepayers that would lower the utilities' avoided costs when they are truly resource sufficient. The methodologies the utilities use now pay QFs the market value of wholesale firm purchases, which insures that QFs receive a partial market value of capacity. ICNU/100, Falkenberg/8. If the Commission adopts a methodology which requires the utilities to accurately forecast their resource sufficiency/deficiency periods, then there is no need for ratepayers to pay for the market value of capacity. The additional energy generated by a QF would not provide capacity, but would only avoid balancing purchases if the QF energy does not help the utility meet peak demands or supply reserves. Id. This is an additional protection for ratepayers, but it should only be applied if the Commission adopts ICNU's three-tier approach because it is not appropriate to deny QFs "some form of a capacity payment just because a capacity deficient utility has a projected energy sufficiency." Id.

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2. The Utilities' Proposals Will Continue to Inaccurately Represent their

Resource Position

PacifiCorp and PGE have proposed to replace their existing

methodologies with the time periods in the utilities' IRPs for the acquisition of a new

proxy resource. PPL/100, Warnken/3; PGE/100, Kuns-Drennan/5. Essentially, the IRP

time period before the acquisition for a new CCCT would be the resource sufficiency

period, and the time period after the CCCT acquisition would be the resource deficiency

period. PPL/101, Warnken/2. The utilities' proposals would effectively continue to

determine the resource sufficiency/deficiency period based on a consideration of both

capacity and energy requirements. Id.

ICNU generally supports using many of the assumptions and data that are

included in an acknowledged IRP for calculating the resource position for avoided cost

purposes. <u>E.g.</u>, ICNU/100, Falkenberg/2-3, 8-9. In addition, ICNU's preference would

be to harmonize each utility's planning process, resource acquisitions, competitive

bidding process and avoided cost calculations. The Commission, however, should not

use the date identified for a new baseload resource in the utilities' IRPs, because it would

likely continue the status quo of not matching the resource sufficiency periods with actual

resource acquisitions, and it would create numerous practical and implementation

problems. For example, the debacle resulting from PacifiCorp's recent thermal request

for proposals establishes that a utility's assumed date of need for new baseload plants can

change dramatically almost overnight. Re PacifiCorp, Docket No. UM 1208, PacifiCorp

Notice of Withdrawal (Feb. 19, 2009).

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Use of PGE's and PacifiCorp's IRPs as the basis for resource sufficiency/deficiency determinations will likely result in a further disconnect between the official resource sufficiency period and the utilities' actual resource acquisitions.

PGE's and PacifiCorp's filed IRPs have generally proposed that they would acquire new baseload resources within three to six years. ICNU/300, Falkenberg/12-13; Re

PacifiCorp, Docket No. LC 39, Order No. 06-029 at 4, 60 (Jan. 23, 2006); Re PacifiCorp, Docket No. LC 42, Order No. 08-232 at 6 (April 24, 2008); see Re PGE, Docket No. LC 33, Order No. 04-375 at 13 (July 20, 2004). This would appear to result in a resource sufficiency period that is slightly longer than the three to five year resource sufficiency period which PacifiCorp and PGE have used under their current methodologies. See supra at 4-5. As discussed above, despite their IRPs showing a long periods of resource "sufficiency" prior to the forecasted baseload resource acquisition, the utilities have acquired significant capacity resources during these periods.

There is no requirement that the utilities follow their acknowledged IRPs, and the utilities have taken significant actions inconsistent with their IRPs. For example, PacifiCorp purchased the Chehalis plant earlier than planned, and issued a thermal request for proposal for resource amounts that exceeded the resource need identified in its acknowledged IRP. Re PacifiCorp, Docket No. UM 1374, Order No. 08-376, Appendix A at 4 (July 17, 2008); Re PacifiCorp, Docket No. UM 1208, Order No. 07-018 at 3 (Jan. 16, 2007). The acquisition of Chehalis was almost four years in advance of the need demonstrated in PacifiCorp's IRP and increased the short-term costs to ratepayers through at least 2011. Docket No. UM 1374, Order No. 08-376, Appendix A at 4.

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DAVISON VAN CLEVE, P.C. 333 S.W. Taylor, Suite 400 Portland, OR 97204 Telephone: (503) 241-7242 Regardless of the prudence of utility actions that are inconsistent with their IRPs, the

utilities have departed from their IRPs. It is inappropriate to set avoided costs for QFs

based on an IRP sufficiency period that utilities ignore for their own acquisitions.

The avoided cost setting process should not be held hostage to the results

of the IRP process. The utilities' proposals are based on the faulty assumption that their

IRPs will be acknowledged by the Commission, however, both PGE's and PacifiCorp's

IRPs are often not fully acknowledged, especially on the issues of when and what

baseload resources they should acquire. The Commission rejected PGE's last IRP and

expressly did not acknowledge the utility's three plans to build significant non-renewable

resources. Re PGE, Docket No. LC 43, Order No. 08-246 at 1, 5. Similarly, although the

Commission did not reject the entire IRPs, the Commission declined to acknowledge

most of PacifiCorp's plans to acquire new thermal resources in its last two IRPs. Docket

No. LC 39, Order No. 06-029 at 1, 4-5, 60; Docket No. LC 42, Order No. 08-232 at 2, 35.

Essentially, "the results of the IRP can't be counted on as being a sound basis for

determining QF pricing." ICNU/200, Falkenberg/2.

The IRP process is also ill-suited to resolving the determination of the

utilities' resource position. The Commission should not require QFs to participate in a

long and costly proceeding that includes a majority of issues that do not directly impact

the determination of resource deficiency/sufficiency. <u>Id.</u> Requiring QF developers to

participate in the IRP process will result in QFs not participating, or imposing "needless

costs on QFs, and by itself serve to discourage QF development." <u>Id.</u> at Falkenberg/1.

The Commission should not impose this hurdle upon QFs, especially at a time when its

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Staff's approach has moved away from a middle ground position of carefully balancing

the interests of QFs and utilities to strongly supporting the utility proposals on QF-related

issues.

It also would be inappropriate for the critical and key evidentiary issues

surrounding the utilities' avoided cost tariffs to be resolved in an IRP proceeding which

did not include the ability for parties to factually contest the utilities' evidence. The

Commission reviews IRPs by taking comments from interested parties, and the IRP is not

a fully litigated proceeding with formal evidentiary hearings. In contrast, the utilities'

avoided cost filings are tariff filings which must be and have been reviewed in a manner

that allows parties an opportunity to conduct a formal evidentiary hearing. <u>E.g.</u>, Docket

No. UM 1129, Order No. 06-629 (Nov. 13, 2006); Docket No. UM 1129, Order No. 06-

538 at 6-7.

Using the utilities IRPs may also lead to a "chicken and egg" problem.

ICNU/200, Falkenberg/3. Utilities typically acquire sufficient "capacity in the short run

to avoid the immediate need for new baseload capacity." Id. Utility IRPs often push out

the date for a new baseload plant so that there is a perpetual three to seven year period

between the IRP and the next baseload plant acquisition. Id. This will result in the first

years of any resource sufficiency period always being "assumed to be met with

purchases, and QFs will never obtain capacity credits" in the early years of new contracts.

Id. If past practices are any indication, the utilities will have added new long-term

capacity resources during these same periods. The use of the utilities' IRPs will

exacerbate rather than resolve this problem.

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Finally, if the Commission allows the utilities to use the date for new

resources in their IRP and continue the disharmony between their resource acquisitions

and resource sufficiency periods, then ICNU proposes that the Commission adopt some

minimum protections. The sufficiency period should be based on the last IRP in which

the Commission has acknowledged a date for acquiring a new baseload resource.

ICNU/200, Falkenberg/3. Utilities should not be given the "benefit of the doubt" that

their IRP will be acknowledged, and QFs would be penalized if the utilities continue to

propose inadequate IRPs. See id. Unidentified, non-contracted capacity sources and

speculative resources should be eliminated from the need determination. Id. Finally, any

party should have the legal right to challenge any assumptions or factual issues, including

the date of a new baseload resource, in the rate proceeding in which the utilities actually

propose their avoided cost tariffs.

V. CONCLUSION

The calculation of whether a utility has a need to acquire a new capacity

resource should be based on the utilities need for capacity not energy. The inclusion of

energy in the resource sufficiency/deficiency calculation has resulted in the utilities'

avoided costs showing they have sufficient resources while at the same time they have

acquired significant capacity and energy resources. The Commission should not continue

to allow the utilities to file fictional avoided costs, but should adopt ICNU's proposed

methodology for determining whether a utility is resource sufficient or deficient. ICNU's

methodology would more accurately calculate when a utility is resource sufficient and

lower the avoided costs paid to QFs when utilities are truly sufficient.

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Dated this 10th day of July, 2009.

Sincerely yours,

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s/ Irion A. Sanger

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July 10, 2009

Via Electronic and US Mail

Public Utility Commission Attn: Filing Center 550 Capitol St. NE #215 P.O. Box 2148 Salem OR 97308-2148

> Re: Investigation into determination of resource sufficiency

> > Docket No. UM 1396

Dear Filing Center:

Enclosed please find the Opening Brief on behalf of the Industrial Customers of Northwest Utilities in the above-referenced docket.

Thank you for your assistance.

Sincerely yours,

/s/ Brendan E. Levenick Brendan E. Levenick

Enclosures

Service List cc:

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Opening Brief of the Industrial Customers of Northwest Utilities upon the parties on the service list, shown below, by causing the same to be sent by electronic mail to all parties, as well as, deposited in the U.S. Mail, postage-prepaid, to parties which have not waived paper service.

Dated at Portland, Oregon, this 10th day of July, 2009.

/s/ Brendan E. Levenick Brendan E. Levenick

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