PGE
Portland General Electric Company
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PortlandGeneral.com

May 12, 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 Testimony of Portland General Electric Company

- **PGE 200 Kuns/Drennan**

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,

Doug Kuns
Manager, Pricing & Tariffs

DK:cbm
Enclosures
cc: Service List-UM 1396

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I. Introduction

Q. Please state your name and position.

A. My name is Doug Kuns. I am employed by PGE as Manager, Pricing and Tariffs.

My name is Ted Drennan. I am employed by PGE as Senior Resource Analyst, Integrated Resource Planning.

Q. Have you previously filed testimony in this docket?

A. Yes. Our direct testimony and qualifications were filed as UM 1396/PGE/100.

Q. What is the purpose of this testimony?

A. Our testimony replies to certain statements, proposals and concerns raised by ICNU and OPUC staff in their respective UM-1396 issues list testimony filed with the Commission on April 13, 2009. Our initial testimony filed in this docket remains as our responses to the resource sufficiency issues list.

Q. Please summarize your testimony and the issues you are responding to.

A. First, we observe that both ICNU and Staff generally agree that utility IRP's are the appropriate basis for determining a resource sufficiency period for avoided cost purposes. Accurate avoided cost pricing is the goal of an appropriate resource sufficiency period determination.

Our reply testimony focuses primarily on responses to Issue 1 and the methodology proposed by ICNU to determine a resource sufficiency period. We believe that the approach presented by ICNU for resource deficiency determination for avoided cost purposes is not consistent with the IRP planning process and yields incorrect avoided costs. We also note that Staff outlines a load/resource balance determination methodology that provides a more complete picture of a resource sufficiency determination, but we believe that the methodology is largely identical to what IRP results will show when used for avoided cost purposes.

II. Resource Sufficiency Period Issues

Q. With respect to Issue 1, are ICNU's descriptions of resource sufficiency and deficiency appropriate for avoided costs purposes?

A. No. ICNU proposes to determine resource sufficiency periods based on a definition of resource sufficiency that is essentially grounded in a static view of resource additions and thus does not reflect avoidable costs going forward. ICNU refers to utility resource additions that occurred in the past, such as the addition of the Port Westward facility as evidence of both current and future resource deficiency (ICNU/100, Falkenberg/4). This view results in ICNU's conclusion that the all-in costs of a CCCT are the avoidable costs in the short or near-term. ICNU's perspective should not be the basis for determining avoidable costs because it ignores the reality of current supply options and thus mistakes avoidable costs.

The determination of resource sufficiency is inherently a dynamic process, influenced by local and regional load growth and the availability of local and regional generation resources to a particular utility. ICNU's approach does not reflect this dynamic environment nor adequately explain why avoidable costs should be determined by reference to earlier resource additions or committed generation additions.

ICNU applies its static perspective of resource sufficiency determination to conclude that, "it is reasonable for the Commission to assume as a "default position" that the utilities are unable to meet their peak demands…" and there is currently no resource sufficiency period (ICNU/100, Falkenberg/7). In other words, ICNU concludes that (1) PGE and Pacificorp are resource deficient today, (2) are unable to meet peak demands <u>and</u> (3) that avoided cost prices must be based on the costs of a new CCCT.[1] The ICNU conclusions do

[1] Except if there are changes due to the current global economic crisis. (ICNU/100, Falkenberg/7, footnote 2)

not adequately nor accurately present a basis for establishing avoidable costs because ICNU dismisses the reality of the utility's current supply position and ability to meet load. We addressed this point in our Direct Testimony at PGE/100, pages 5– 8.

Further, by implication, ICNU's resource deficiency definition means that ICNU is assuming that all QF's provide capacity to meet utility peak loads. Although for avoided cost pricing purposes, the Commission has chosen certain simplifying assumptions for pricing for QFs of less than 10 MW capacity, the Commission has consistently recognized that QF pricing must accurately reflect avoidable costs. If certain capacity costs are not avoidable as a result of a QF delivery of power, then prices should not reflect it. PURPA, of course, provides the basis for this approach by defining avoided costs as those costs associated with power supply that the utility would, but for the purchase from a QF, generate or purchase from another source (Section 210 of PURPA). This is a key reason for a proper resource sufficiency determination method that only includes capacity costs if such costs are avoided and are based on IRP findings including the timing of resources additions.

Q. Is ICNU's concern about utilities continually extending resource sufficiency periods with updated avoided costs valid?

A. No. ICNU seems to misinterpret how the sufficiency period functions in a utility's avoided cost calculation. ICNU is concerned that utilities "continually extend the period of resource sufficiency" (ICNU/100, Falkenberg/6). The implication is that QFs will only receive avoided cost prices that are based on market prices and not reflect CCCT costs. This perception is incorrect. PGE's current avoided cost filing shows the resource sufficiency period ending in 2011; avoided costs thereafter are based on a CCCT. Thus, a QF electing to deliver power under the current standard contract avoided costs does, in fact, receive CCCT-based costs in 2012 and beyond. As described above, future avoided cost filing will likely shift the resource deficiency period to another date reflecting then current conditions, but that does not affect any QFs under existing fixed price contracts.

When PGE filed the 2007 Avoided Costs, the resource sufficiency period extended through 2011. Now, in 2009, the Port Westward CCCT and the Biglow Canyon wind farm are now known and measurable resources. This has changed our mix of power purchase contracts and generation resources. Future IRPs will consider these changes in determining the long-term economic resource expansion plan. Each time period examined to determine the resource sufficiency period may result in a new sufficiency period. In contrast, ICNU's proposed "three tier" test for determining resource sufficiency/deficiency disregards both the dynamics of resource additions over time and the definition of avoided costs. ICNU's proposed methodology is not appropriate to determine resource sufficiency periods.

Q. How does the sufficiency period affect standard contract QF generators under 10 MW?

A. In PGE's standard contract, QF generators under 10 MW are only required to meet minimum requirements for energy delivery. They are not contractually required to be dispatchable and supply capacity. However, for a QF that entered into a fixed price contract at the current published avoided costs, after the resource sufficiency period in 2012, the QF will receive an avoided cost payment based on a CCCT and that includes a capacity cost component because the avoided costs beyond 2011 include capacity costs.

Q. Please address staff's proposed methodology to determine resource sufficiency?

A. Staff's responses to Issues 4, 5, 6 and 7 together describe how resource sufficiency and deficiency determinations must thoroughly consider the wide variety of factors related to utility power supply planning both in the near term and in the long-term. Staff explains, "The resource sufficiency determination needs to be informed by changing externalities like the regional power market picture and transmission considerations, but these factors are also relevant to the resource needs evaluated in an IRP" (Staff/100, Durrenberger/7). Staff's approach recognizes that avoidable costs determined in reference to what the utility must do and plan for to meet loads. Staff also recognizes that the IRP process and resource sufficiency are appropriately based on the same resource needs perspective.

Given the strong concurrence between Staff's methodology and the IRP objectives (as Staff comments also suggest), PGE believes the IRP is the appropriate baseline reference for resource sufficiency determination. Using the IRP process to establish resource sufficiency will avoid duplicative processes and utilize a well-established process to achieve more accurate avoided costs.

Q. Does this conclude your testimony?

A. Yes

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **Portland General Electric Reply Testimony** 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 12th day of April, 2009.

Doug Kuns
Manager, Pricing & Tariffs

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