PACIFIC POWER
A DIVISION OF PACIFICORP

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July 22, 2016

VIA ELECTRONIC MAIL

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-1166

Attn: Filing Center

Re: UM 1729(1) – PacifiCorp's Informal Comments on Staff's draft memorandum

PacifiCorp d/b/a Pacific Power (PacifiCorp or Company) appreciates the opportunity to provide comments on Staff's July 15, 2016 draft public meeting memorandum. The Company supports Staff's recommendation that the Public Utility Commission of Oregon (Commission) approve the Company's standard non-renewable avoided cost prices from its June 21, 2016 filing. The Company also supports Staff's recommendation to approve the use of the March 2016 official forward price curve (OFPC) and application of the 100% production tax credits (PTCs) to the 2018 renewable proxy resource. To ensure its avoided cost prices comply with PURPA's customer indifference standard, the Company urges Staff to recommend approval of the Company's standard renewable avoided cost prices in its June 21, 2016 filing with updated capital costs and capacity factors for the following reasons.

I. DISCUSSION

A. The Company's Proposed Schedule 37 Filing Provides a Balanced Proposal

As noted in PacifiCorp's June 21, 2016 filing, the Company developed its Schedule 37 update to conform to the customer indifference standard while addressing concerns raised by the Commission regarding the implications of Senate Bill (SB) 1547.

In its comments, Staff and Joint QF Parties supported the Company's updates relating to the 2018 renewable resource deficiency period, application of 100% PTCs to the 2018 renewable proxy resource, and use of the March 2016 OFPC. Use of updated inputs for these elements that are used to calculate the Company's Schedule 37 prices will result in a more up-to-date representation of the Company's avoided costs. Just as these cost elements require an update, PacifiCorp reiterates the points made in its June 21, 2016 application—adherence to the customer indifference standard necessitates the Company's use of the most current and accurate cost, performance and price curve data available.

At the March 22, 2016 public meeting, the Commission discussed the Company's 2015 integrated resource plan (IRP) at length, noting that SB 1547 has rendered it out-of-date. Therefore, the Company updated its avoided cost inputs with more recent information from its 2015 IRP Update, filed with the Commission on March 31, 2016. In its 2015 IRP Update, the Company estimates that a 2018 wind resource located in Oregon would have a capital cost of $1,803/kW (2014$) and operate a capacity factor between 29% and 35%.

Staff's draft memo misapprehends the true impact of SB 1547. PacifiCorp's acknowledged 2015 IRP did not identify a need for new renewable resources during the 20 year planning period. As reflected in its original avoided cost update, PacifiCorp had no need to develop deficiency period prices for the standard renewable price stream in the absence of some sort of change. The Commission found that such a change occurred – namely, the passage of SB 1547 and ordered PacifiCorp to develop new avoided cost prices in light of the legislation.

Staff's draft memo narrowly construes the impact of SB 1547. According to Staff, the only thing SB 1547 changes is the renewable deficiency demarcation. This is not true. PacifiCorp's 2015 IRP Update indicates that the Company can fulfill its compliance obligations using its existing REC bank through 2025; therefore, PacifiCorp is not presently resource deficient, will not be resource deficient in 2018, and has no immediate need to acquire new resources. PacifiCorp's request for proposals (RFP) is not directed at curing a near-term resource deficiency position; instead, it is aimed at determining whether there are opportunities for acquiring time-sensitive resources that could lower future compliance costs for customers. Thus, SB 1547 only drives short-term acquisition needs to the extent that such acquisition needs are cost effective for customers. PacifiCorp would not acquire a resource with the cost and performance characteristics embedded in the 2015 IRP. Consequently, use of these cost and performance assumptions, as recommended by Staff and Joint QF parties, is inherently inconsistent with a 2018 renewable resource deficiency period and would harm customers.

While PacifiCorp will acquiesce to a 2018 renewable resource deficiency period for the limited purpose of setting standard renewable avoided cost prices (despite the lack of need shown in the 2015 IRP Update), it only does so based on its understanding that any near-term resource acquisition would lower long-term RPS compliance costs. In short, only low cost near-term opportunities are being considered. Therefore, the proxy resource used to develop standard renewable avoided cost prices with a 2018 renewable resource deficiency period should reflect the most current conditions and should mirror the type of cost-effective, prudent acquisition decision PacifiCorp may make.

As described in PacifiCorp's June 21, 2016 filing, cost and performance data from the 2015 IRP Update as used in the Company's proposed standard renewable avoided cost prices align well with the cost and performance of bids submitted into PacifiCorp's 2016 renewable resource RFP. Moreover, there is sufficient public data available for relatively recent wind resource projects constructed in the Pacific Northwest that demonstrate a 29% capacity factor is an outdated assumption. For instance, Portland General Electric Company (PGE) reports a 36.8% capacity factor for its 267 MW Tucannon Wind facility that came online in 2015.[1] Similarly, PGE reports higher capacity factors for older vintage projects, including a 34.7% capacity factor for its 75 MW Klondike II wind project that came online in 2005, a 31.8% capacity factor for the 450 MW Biglow Canyon wind project that came online in phases between 2007 and 2011.[2] The capacity-weighted average capacity factor for these projects is 33.8%. Considering this weighted average capacity factor includes data from older vintage projects, that wind resource advancements allow current technologies to achieve increased output, and that, as discussed above, PacifiCorp would only procure the most cost-effective opportunities in the

[1] See PGE's 2013 IRP, page 21.
[2] See PGE's 2013 IRP, page 27.

near-term, it is reasonable to apply a 35% capacity factor assumption when calculating renewable standard avoided cost prices with a 2018 renewable resource deficiency period.

Staff's draft memo also argues that PacifiCorp must include avoided transmission costs in its avoided cost prices. But in a similar vein, transmission costs increase the overall cost for renewable resource procurement, and PacifiCorp is not seeking to move forward with high-cost near-term resource alternatives. For this very reason, PacifiCorp's RFP was limited to resources in its western balancing authority area considering the high likelihood that projects outside of the west balancing authority area would be likely to incur incremental transmission costs. Therefore, PacifiCorp's avoided cost prices should not reflect outdated cost and performance assumptions and should most definitely not reflect incremental transmission costs, which would render near-term alternatives uneconomic and inconsistent with a 2018 resource deficiency period.[3]

B. PacifiCorp's Avoided Cost Prices Must Conform with the Customer Indifference Standard

The Company's June 21, 2016 filing included a balanced proposal to update prices to reflect the requirements of SB 1547 while incorporating the most current and accurate cost, performance, and price curve data. Avoided cost prices that include an updated 2018 deficiency period while relying on stale cost and performance data would result in arbitrarily high avoided cost prices that violate the customer indifference standard and would harm PacifiCorp customers vis-à-vis customers of other investor-owned utilities in Oregon.

Avoided cost pricing approved by the Commission must conform with the standard that retail customers should be indifferent to the Company's purchase of QF power. This standard is intended to leave customers economically indifferent to the source of a utility's energy by ensuring that the cost to the utility of purchasing power from a QF does not exceed the cost the utility would have otherwise incurred without the QF purchase.

C. The Commission Should Direct PacifiCorp to Update its Schedule 37 Prices As Soon As More Information is Available

The Company's RFP process will provide updated information relevant to avoided cost prices. On July 26, 2016, the Company will present its RFP results to the Commission. This presentation will provide additional data for the Commission, Staff, and stakeholders to help inform the determination of the appropriate capital costs, performance estimates and sufficiency/deficiency period to be used in the calculation of the Company's Schedule 37 prices.

The Commission should not reject the Company's balanced proposal to update its Schedule 37 prices using current cost and performance inputs from the 2015 IRP Update merely because additional information will be available in the future. While the Company understands that SB 1547 may constitute a "significant change," the Company also agrees that further

[3] Page 7 of the draft memo states: "Staff disagrees with PacifiCorp that it is necessary to update the 2015 IRP cost and performance assumptions if the resource deficiency date for the renewable resource is moved from 2038 to 2018." PacifiCorp is unaware of the origin of the 2038 date and believes it may be a typographical error; if so, PacifiCorp asks Staff to correct it in its final memo.

information is needed to truly understand the impacts of SB 1547.[4] This information will be available at the conclusion of the Company's RFPs where the Company will make a determination regarding its least-cost compliance options.

Staff's draft memo notes that the Company's July 15, 2016 Renewable Portfolio Standard Implementation Plan (July RPIP) "may provide the Commission and stakeholders an opportunity to vet an updated renewable deficiency period and renewable resource cost and performance inputs." The Company's July RPIP was filed the same day that PacifiCorp finalized the short list for the RFP. As such, the July RPIP did not use current market data from the RFP. Given that the July RPIP contains updated inputs, including updated pricing information, and considering the unique circumstances surrounding the July RPIP, Staff's recommendation may be reasonable. It is unclear at this time how exactly the July RPIP would be used to update avoided cost prices, but PacifiCorp continues to support updating its avoided cost prices with the best available market information; if the Commission will not use the results of the RFP, the July RPIP may be a reasonable alternative.

Staff should recommend that in approving the Company's June 21, 2016 filing, the Commission should direct the Company to make an updated avoided cost filing upon the conclusion of the of the Company's RFP.

II. CONCLUSION

Informal inquiries may be directed to Natasha Siores at (503) 813-6583.

Sincerely,

R. Bryce Dalley
Vice President, Regulation

[4] The Company's June 21, 2016 filing included a 2018 renewable deficiency date as part of its proposal. The Company does not believe that SB 1547 renders it immediately deficient, but set for the 2018 date in response to the Commission's concerns. Additional information will be available at the conclusion of the Company's RFPs.