Portland General Electric Company
Legal Department
121 SW Salmon Street • Portland, Oregon 97204
503-464-7181 • Facsimile 503-464-2200

V. Denise Saunders
Associate General Counsel

SENT VIA E-MAIL TO puc.filingcenter@state.or.us

January 15, 2016

Oregon Public Utility Commission
Attention: Filing Center
PO Box 1088
Salem OR 97308-1088

Re: UM 1752 Portland General Electric Company's Revised Schedule 201 Qualifying Facility Information

Attention Filing Center:

Enclosed for filing is **Portland General Electric Company's Response to Comments on Avoided Costs** in Docket No. UM 1752. This document is being filed by electronic mail with the Filing Center.

Thank you in advance for your assistance. If you have any questions, please contact me directly

Sincerely,

V. Denise Saunders
Associate General Counsel

VDS/rff

Enclosure

BEFORE THE PUBLIC UTILITY COMMISION

OF OREGON

UM 1752

In the Matter of	)	
	)	**PORTLAND GENERAL ELECTRIC COMPANY's**
PORTLAND GENERAL ELECTRIC COMPANY	)	
	)	**RESPONSE TO COMMENTS ON AVOIDED COSTS**
Revised Schedule 201 Qualifying Facility Information	)	

On December 3, 2015 Portland General Electric Company (PGE) submitted a mid-cycle update to its avoided costs to the Public Utility Commission of Oregon (Commission). Five parties representing QFs and QF developers - Community Renewable Energy Association (CREA), Cypress Creek Renewables (Cypress Creek), Obsidian Renewables, LLC (Obsidian), NewSun Energy (NewSun Energy), and the Renewable Energy Coalition (the Coalition), (collectively, the QF Parties) submitted comments urging the Commission to reject the filing. PGE submits this filing to respond to the comments. Contemporaneous with this filing, PGE is amending its avoided cost filing to remove the Production Tax Credit (PTC) from the calculation of avoided cost prices during the deficiency period to ensure consistency with the PTC phase-out period recently adopted by Congress.

As discussed below, PGE's updates to its avoided cost prices are based, in part, on analyses contained in its recent Integrated Resource Plan (IRP) Update. While the analyses did not warrant changes in PGE's proposed IRP action plan, and therefore did not require PGE to seek acknowledgement of the IRP Update, the analyses did indicate that PGE's actual renewable avoided costs are significantly lower than current pricing offered to QF developers under PGE's Schedule 201, and therefore merit a mid-cycle update under the Commission's PURPA policies.

Several of the changes PGE is proposing should be no surprise to QF developers as they have been known to the market for some time and are made to true-up inconsistencies with the practices of other Oregon utilities and PGE's rate cases. While PGE's customers are very supportive of the development of renewable power, they also want the prices they pay for such power to be fair and reasonable. PURPA supports these concerns – requiring that customers remain indifferent as to whether the utility uses QF or more traditional sources of power to meet its customers' needs. *Independent Energy Producers Association, Inc., et al. v. California Public Utilities Commission*, 36 F.3d 848, 858 (1994). The updates in this mid-cycle filing are necessary to send accurate price signals to QF developers and to prevent PGE customers from subsidizing the development of renewable QF facilities with significantly inaccurate avoided cost prices.

PGE's Avoided Cost Update Reflects a Significant Change in Renewable Avoided Costs

If PGE's revised avoided cost prices are not approved, pricing offered to QFs will be:

- 48% higher than actual avoided costs for base load QFs
- 41% higher than actual avoided costs for wind QFs
- 46% higher than actual avoided costs for solar QFs

As of January 5, 2016, PGE had eighteen potential QF projects that started the contracting process. If these contracts are executed under the existing avoided cost rates then, based on the expected annual energy provided by these QF projects, PGE's customers would pay an additional $155.5 million over 15 years for these projects over what they would pay under PGE's proposed avoided cost rates.[1] In years of resource deficiency (i.e., prior to 2024), the incremental cost impact of purchasing QF energy under stale avoided cost prices is more than $21 million per year. This annual cost impact equates to a more than 1 percent annual increase in customer prices

[1] PGE will, of course, follow the Commission's rules and policies in terms of determining the applicability of filed avoided costs rates to specific contracts.

if PGE were to execute all pending requests for standard avoided cost contracts under the current avoided cost rates.[2] To the extent that more QFs request contracts, customer exposure to additional costs will only escalate, possibly by multiple times. While PGE's customers support PGE's acquisition of renewable energy, they are sensitive to the prices associated with renewable development and want assurance that renewable energy is acquired in a cost-effective manner. We do not believe our customers should be required to provide subsidies for one group of generators or developers.

PGE's Avoided Cost Filing is Permitted by the Commission's Orders

The QF Parties object to PGE's filing on the grounds that it does not comply with the Commission's orders. CREA at 3; Cypress Creek at 1, 3; REC at 1, 5; Obsidian at 1; NewSun Energy at 1. However, the Commission has long maintained that it provides flexibility in the cycle of avoided cost updates, at its discretion. In Order No. 05-584, the Commission stated:

> We affirm the continued use of a two-year filing cycle for avoided cost rates. We acknowledge, however, that circumstances can significantly change within a short period of time to render avoided costs outdated. As it is our overriding goal to accurately assess avoided costs on an ongoing basis, we deem it appropriate to introduce some flexibility into the process that is used to establish avoided cost rates.

In Order No. 10-488, the Commission stated:

> With respect to avoided cost updates, we retain the current practice of the utilities filing their avoided costs every two years and, also, 30 days after an IRP order is issued. A utility may also propose to update its avoided costs at any time, based on a "significant change." In this decision, we will not define what constitutes a "significant change." The determination will be made on a case-by-case basis.

In UM 1610, the Commission adopted an annual update. The annual update allows the utilities to update for three items: (1) natural gas prices, (2) forward electric prices, and (3) changes to the status of the production tax credit. In addition, the Commission allows changes

[2] These impacts take into account PGE's removal of the PTC from our proposed avoided cost prices.

from an acknowledged IRP update. However, the Commission kept the option to allow for mid-cycle updates for "significant changes." Order 10-058 states:

> Finally, in light of our adoption of a yearly update, we will continue to allow requests for mid-cycle updates for significant changes to avoided cost prices. However, in light of our decision here to require annual updates in addition to updates following IRP acknowledgement, we caution stakeholders that the "significant change" required to warrant an out-of-cycle update will be very high. We expect the parties to use this option infrequently.

PGE's filing is a request for a mid-cycle update and, as discussed above, the changes to renewable avoided cost prices are significant.

PGE's Requests for Mid-Cycle Updates are Infrequent

PGE has abided by the Commission's desire that parties request mid-cycle changes to avoided costs infrequently. Since the Commission significantly modified the avoided cost methodology in 2005, PGE has submitted only one out-of-cycle request to modify avoided costs – after awarding the bid for the construction of the Carty Generating Station. All of PGE's previous avoided cost filings were either on the predicted cycle or in compliance with an order. Moreover, the mid-cycle update to reflect the award for the Carty Generating Station was specifically allowed by the Commission. *See* Order No. 11-505, Docket UM 1396 at 2.

PGE will Remove the PTC from the Calculation of Avoided Cost Prices During the Deficiency Period

CREA argues that PGE's assumption regarding the PTC has proven wrong in the weeks since PGE's filing. CREA at 7. Contemporaneous with this filing, PGE is filing revised avoided costs to remove the PTC from the calculation of avoided cost prices during the deficiency period. PGE's December 3, 2015 avoided cost filing assumed the PTC would be extended by the end of the year. While the PTC was indeed extended, the Consolidated Appropriations Act, 2016 extended the PTC with a phase down starting in 2017, and a phase out after 2019. The deficiency period, as modified by PGE's mid-cycle update to avoided costs submitted on December 3, 2015, begins in 2024. Due to the phase out of the PTC, PGE would be unable to take advantage of the PTC for a wind plant becoming operational January 1, 2024.

PGE's Other Updates to Avoided Cost Prices are Necessary to Ensure Accurate Avoided Cost Prices

The mid-cycle update to PGE's avoided costs is based on updates to several inputs which require a significant change to PGE's renewable avoided cost prices to ensure that they send accurate price signals to developers and do not adversely impact PGE's customers. Each change is described more fully below.

RECs/RPS: In its acknowledgment order for PGE's 2013 IRP, the Commission directed PGE to evaluate multiple Renewable Portfolio Standard (RPS) compliance strategies –including alternatives to physical compliance – in its next IRP Update and future IRPs. *See* Order No. 14-415, Docket LC 56 at 13. Our analysis showed that a physical renewable resource addition in 2024, balanced by reliance on banked RECs through 2023, enables PGE to delay costs of physical compliance in 2020. PGE 2013 Integrated Resource Plan Update at 45-60. This will provide a hedge against factors that pose future cost or compliance risk for PGE. The effect of the analysis on PGE's avoided costs is to extend the deficiency period to 2024 – the date on which PGE will need to acquire a major renewable resource. Because this strategy does not affect the 2013 IRP Action Plan, PGE has not sought acknowledgment of the IRP Update.

The Renewable Energy Coalition argues that Commission rejected using unbundled Renewable Energy Certificates (RECs) to determine resource deficiency. The Coalition at 6. PGE's revised RPS compliance strategy does not use unbundled RECs to determine resource deficiency. It uses bundled RECs that are from resources that provide energy to PGE's retail electricity customers. Based on the forecast submitted with the IRP Update, the later use of those RECs allows PGE to avoid acquiring the next renewable resource for a few years and bring the next renewable resource online in 2024.

Capital Costs: The overnight capital costs used in PGE's currently approved avoided costs are several years old, based on bids for base load and renewable resources from 2012 that were awarded in 2013. The Commission does not permit updates to overnight capital costs to be included in annual updates. *See, Re Investigation into Qualifying Facility Contracting and Pricing, See* Order No. 14-058, Docket UM 1610 at 25. As such, the only opportunity to ensure that accurate and current capital costs are used in deriving avoided cost prices is in a mid-cycle update.

CREA questions our proposed overnight capital costs because they are below the estimated cost contained in the draft of the Northwest Power and Conservation Council's Seventh Power Plan. CREA at 8. While PGE cannot speak directly to the basis for the Northwest Power and Conservation Council's planning assumption, PGE's proposed overnight capital costs for wind are provided by a third party vendor, DNV GL, who has direct experience in the onshore wind value chain. PGE contracted with DNV GL in response to comments submitted by Renewable Northwest on PGE's 2013 IRP suggesting that one of the consultants should bring a "deeper understanding" of renewable resource parameters. Final Comments of Renewable Northwest, Docket No. LC 56 (2014) at 1. PGE believes DNV GL provides the "deeper understanding" sought by Renewable Northwest in PGE's 2013 IRP and that their capital cost calculations should be used in deriving PGE's avoided costs.

Financial and Tax Parameters: PGE updated financial and tax parameters consistent with the IRP update. Those parameters are set by the Commission in PGE's UE 283 general rate case. *See* Order No. 14-422, Docket No. UE 283. The order from PGE's most recent general rate case, UE 294, was not available in time to be used in the IRP update. They would likely decrease avoided costs further due to a lower approved return on equity, but by a less material amount.

Contingency Reserves: PGE currently includes contingency reserves in the avoided cost calculation during the deficiency period for both traditional and renewable avoided costs. However, purchases from QFs do not allow PGE to avoided carrying contingency reserves. Therefore, PGE and its retail electricity customers pay twice for contingency reserves related to QF projects. This is because contingency reserves are currently (1) included in the avoided cost price and (2) carried by PGE for those same QF projects. The avoided cost calculations for other utilities in Oregon do not include contingency reserves for that reason.

Shaping: PGE proposes to shape avoided cost prices using AURORA output prior to the Commission's decision to adjust for capacity by QF type. The adjustment for capacity occurs in on-peak prices. In addition, other utilities in Oregon do not use monthly shaping for avoided cost pricing. PGE proposes to remove the shaping from avoided cost prices during the renewable avoided cost deficiency period, when prices are based on a wind plant.

Solar Contribution to Capacity: Because the method for determining the contribution to capacity of renewable resources is part of an ongoing Commission docket, UM 1719, PGE has continued to use the same contribution to capacity as is used in its IRP and IRP Update. PGE may update the capacity contribution upon acknowledgement of the 2016 IRP or as directed by the Commission.

A Mid-Cycle Update is necessary at this time to ensure that PGE's Avoided Costs Send Accurate Price Signals to Developers and do not Adversely Impact PGE's Customers

Several parties suggest that PGE should have waited until May 1, 2016 to update its avoided costs. Cypress Creek at 3; REC at 5; CREA at 3. PGE could have waited until May 1, 2016 and proposed a few of the updates included in its filing as part of its annual update filing. However, there are changes in our current filing that are not permitted in an annual update. These changes include: significant decreases in overnight capital costs of proxy plants; removal of contingency reserves; and changes to the resource sufficiency period. In addition, it is not clear whether PGE can propose changes to the shaping of avoided costs in an annual filing. Without a mid-cycle update, PGE would not be able to update these items until after its 2016 IRP is acknowledged which, at the earliest will be mid to late 2017. By that time the assumptions concerning capital costs would be four or five years old and assumptions related to contingency reserves, shaping and PGE's resource sufficiency period will have continued to be inaccurate.

The Commission should not alter its policies concerning Legally Enforceable Obligations

One party suggests that if the Commission adopts any part of PGE's request, the revised pricing should not apply to QF projects that have already initiated the contracting process. Cypress Creek at 7. We do not believe the Commission should deviate from its current policies with regard to the establishment of a Legally Enforceable Obligation (LEO). Immediately after PGE made its avoided cost filing it received a multitude of new requests for standard contracts. Some of them came without any prior contact from the developer in the form of emails to PGE with the developer's signature on a standard contract form and very little other information about the project or the developer and an assertion that a LEO had been established. PGE is committed to following the Commission's orders and our Schedule 201 in the processing and execution of standard QF contracts, the QF developers should do likewise.

Conclusion

The Commission has repeatedly articulated its PURPA goals as being two-fold, both "to provide maximum economic incentives for development of QFs" but also to ensure "that the costs of such developments do not adversely impact ratepayers who ultimately pay these costs." Order 14-058 at 3. The commenters focus on the first of these goals but ignore the second.

Moreover, they ignore that PURPA requires that electric utilities "purchase power from QFs at rates that are just and reasonable to the utility's customers and that are not more than avoided costs." *Id.* This Commission has recognized the need to send accurate price signals to QF developers. *See, Id*. PGE is seeking to update avoided cost pricing to provide those accurate signals. Our mid-cycle filing adjusts our avoided cost prices to reflect updated assumptions and to provide consistency with methods used by other Oregon utilities. Some of these assumptions are already several years old, and if they are not permitted in an annual update or a mid-cycle filing, it may be two years or longer before they can be made. Failure to accept the updates will have significant adverse impacts on our customers' rates and will send inaccurate price signals to QF developers. As such, we respectfully request that the Commission approve our mid-cycle filing.

DATED this 15th day of January, 2016.

Respectfully submitted,

V. Denise Saunders

V. Denise Saunders, OSB 903769
Associate General Counsel
Portland General Electric Company
121 SW Salmon Street, 1WTC 1301
Portland, Oregon 97204
(503) 464-7181 (Telephone)
denise.saunders@pgn.com