May 17, 2016

Oregon Public Utility Commission
201 High Street SE, #100
Salem, Oregon 97301

Subject: AR 598

Dear Commissioners:

Obsidian Renewables LLC, an Oregon developer of larger scale solar projects, consistently supports a full array of competitive solutions for energy supply, including utility ownership. A competitive market is in everyone's interest, most particularly ratepayers. However, we feel very strongly that utilities cannot be permitted to have a monopoly on generation resources.

In a fully competitive marketplace, utilities would have to be sharp and efficient to compete with a well-financed and well-managed independent power producer. The Commission should encourage such a market to develop.

The renewable energy market is not efficient (as an economist would measure it) today. According to PGE filings with the Commission, a natural gas plant can be built by it at a blended cost of capital expressed as a pretax rate of return of about 7.7 percent. Tax adjusted, the effective yield would be about 6.4 percent. Fossil IPPs can compete with those economics on natural gas plants. The *renewable* market tax equity for a *solar farm* is today about 7.25 +/- on an after tax basis. So PGE has a cost of capital advantage compared to renewable IPPs today. The independent renewable market needs to bring its yields down, and competition will drive them down. Ratepayers will benefit.

The concerns expressed by stakeholders whether fair and competitive markets exist for utility power purchases and whether competitive markets are encouraged by Commission policy are genuine and well-founded. Obsidian has serious concerns about renewable market policy in Oregon that are regularly expressed to the Commission. As with most questions of policy, the interests and concerns need to be weighed and balanced.

In its filing, PGE has correctly identified a near-term opportunity with the temporary extension of the production tax credit for wind resources. In spite of its history, the PTC is unlikely to be extended again. PGE is being responsible by trying to determine whether the opportunity that seems to be available is in fact available by asking for firm bids from real projects able to serve its territory. PGE is correct to present its interest as sincere and genuine. It won't get the best price by waffling.

PGE has taken steps to comply in substantial fashion with Commission guidelines on resource acquisition and has indicated a willingness to continue to communicate with stakeholders and the Commission as the process moves forward. PGE is offering to comply as best it can and it should be tasked to comply with the Guidelines as best it can.

The opportunity to secure full PTC projects and its pursuit don't necessarily mean ratepayers should buy the shiny red firetruck. There is adequate time before the RPF process turns into final commitments for PGE to more thoroughly make its case to the PUC staff and stakeholders. But we shouldn’t let the opportunity pass PGE by.

In my opinion, PGE will receive proposals for wind and solar resources at significant discounts to the renewable energy forward curves presented in PGE’s most current IRP and its most current avoided cost pricing. The responsible move for PGE is to put itself into position to secure those resources at unexpectedly attractive prices, whether by purchase, by power purchase agreement, by lease financing, or by another recognized financing strategy.

Sincerely,

David W. Brown
Senior Principal