BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1802

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation to Examine PacifiCorp d/b/a Pacific Power's Non-Standard Avoided Cost Pricing.	**STAFF REPLY BRIEF**

I. Introduction.

The Commission opened this docket to investigate two issues relating to implementation of the Public Utility Regulatory Policy Act (PURPA); (1) whether PacifiCorp should offer a nonstandard renewable avoided cost price option to renewable qualifying facilities (QFs), and if the answer to this question is "yes," (2) how should these prices be calculated?

Staff recommends that the Commission require PacifiCorp to offer nonstandard renewable avoided cost prices and to return to the original method for calculating nonstandard renewable avoided cost prices ordered by the Commission in 2011. In Order No. 11-505, the Commission ordered PacifiCorp to offer nonstandard and standard renewable prices based on the methodology used for nonrenewable prices. Under this methodology, nonstandard prices are based on the currently-effective standard prices but adjusted to account for characteristics of the contracting QF as allowed under regulations adopted by the Federal Energy Regulatory Commission (FERC).[1]

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[1] 16 U.S.C. § 292.304.

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II. The Commission should reject PacifiCorp's request to use the PDDRR method to calculate nonstandard renewable avoided cost prices.

PacifiCorp asks the Commission to require nonstandard renewable avoided cost prices in only limited circumstances and urges the Commission to allow PacifiCorp to use the Partial Displacement Differential Revenue Requirement (PDDRR) methodology to calculate these prices.[2] In Docket No. UM 1610, Staff testified that the PDDRR methodology was justified for larger QFs because it would more accurately quantify the impact of each individual QF on PacifiCorp's system than the original method, but cautioned that the PDDRR method should be accompanied by transparency. The underpinnings of this docket and PacifiCorp's own testimony reflect that the PDDRR methodology is neither transparent nor accurate. Accordingly, Staff no longer supports the PDDRR methodology.

A. The PDDRR method is not transparent.

First, as the Renewable Energy Coalition (REC) notes in its Opening Brief, PacifiCorp's proposed PDDRR methodology has proved to be nontransparent from the beginning.[3] Staff and stakeholders were not aware of PacifiCorp's intention in Docket No. UM 1610 to discontinue offering nonstandard renewable avoided cost prices if the Commission authorized use of the PDDRR method.[4] PacifiCorp's intention only became clear to Staff and other stakeholders when PacifiCorp's UM 1610 Phase II compliance filing did not provide an option that allows renewable QFs entering into non-standard contracts to select a renewable avoided cost price stream.[5]

It appears that PacifiCorp tries to address concerns regarding transparency of the PDDRR method by stating in its opening brief that it has "agreed to work with developers to ensure that

[2] PacifiCorp's Opening Brief, p. 7-8.
[3] Renewable Energy Coalition Opening Brief, p. 4.
[4] Renewable Energy Coalition Opening Brief, p. 4.
[5] Renewable Energy Coalition Opening Brief, p. 4.

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the PDDRR methodology is transparent."[6] However, Staff's concern is more fundamental. In the last several months, PacifiCorp's intended use of the use of the PDDRR to calculate nonstandard renewable avoided cost prices has changed more than once. Staff is not confident that it or stakeholders are fully aware of all the details and implications of PacifiCorp's current proposal. As the Community Renewable Energy Coalition (CREA) notes, "[t]he cumulative effect of PacifiCorp's amorphous and ever-changing proposal is an incomplete record and an incomplete understanding of PacifiCorp's final proposal."[7] Staff believes the potential for unintended consequences and continued litigation if the Commission authorizes PacifiCorp to use the PDDRR method is a compelling factor that militates against allowing PacifiCorp to continue to use the PDDRR method.

B. The PDDRR method accurately calculates avoided cost prices in only limited circumstances.

Use of the PDDRR method is not warranted to improve the accuracy of avoided cost prices because the PDDRR method has limited effectiveness for this purpose. According to PacifiCorp, the PDDRR method accurately captures the impact of a contracting QF on the utility's system costs only when the contracting facility is the same as the proxy resource.[8] The point of the PDDRR method was to improve accuracy of prices by more precisely taking account the differences in the operating characteristics of the contracting QF and the proxy resource. Apparently, this goal can only be achieved under the PDDRR method if the operating characteristics of the contracting QF and the proxy resource are the same.

The method for calculating avoided cost prices originally ordered by the Commission (standard prices adjusted by seven FERC factors) was designed by FERC to take into account differences between the operating characteristics of the contracting QF and the next planned

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[6] PacifiCorp's Opening Brief, p. 9.

[7] Opening Brief of the Community Renewable Energy Association, p. 9.

[8] PacifiCorp's Opening Brief, p. 2.

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acquisition of the utility. Given that the PDDRR method does not appear to improve on the FERC method, the potential benefit from the PDDRR is certainly not outweighed by the potential harms from lack of transparency and understandability.

Further, Staff disagrees with PacifiCorp's assertion that the "[t]he PDDRR methodology produces more accurate avoided costs when it assumes that a QF resource defers a similar type of resource in PacifiCorp's most recent IRP preferred portfolio."[9] Accurate avoided cost prices should be based on costs the utility actually plans to incur. PacifiCorp's "like for like" proposal ignores PacifiCorp's next planned resource acquisition if the contracting QF is of a different resource type and therefore ignores the costs that PacifiCorp actually plans to incur for these QFs. This is not a more accurate reflection of PacifiCorp's avoided costs.

C. The Commission should reject PacifiCorp's request to limit the availability of renewable avoided cost prices.

PacifiCorp seeks to address the limitations of the PDDRR method by asking the Commission to significantly change its policy regarding availability of renewable avoided cost prices. Prior to the Commission's order authorizing the PDDRR method, all renewable QFs willing to cede RPS-eligible renewable energy credits (RECs) to the utility were entitled to receive deficiency-period avoided cost prices based on the acquisition date and costs of the next renewable resource acquisition in the utility's integrated resource plan (IRP). Under PacifiCorp's current PDDRR proposal, the avoided costs offered to a contracting QF would be based on the next avoidable renewable resource in the utility's integrated resource plan (IRP) only if the contracting resource and the next avoidable renewable resource in the IRP are of the same type. All other renewable QF types would receive a different avoided cost price tied to the acquisition date and costs of resources of the same type in the utility's IRP. Such acquisitions would be subsequent to the next planned renewable resource if they are planned to occur at all. And, if such acquisitions are planned, the costs of these resources would only be incorporated

[9] PacifiCorp Opening Brief, p. 2, lines 8-10.

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into avoided cost prices offered to a contracting QF if the acquisition is planned to occur during the fixed price term of a QF's contract.

PacifiCorp's "like for like" limitation is inconsistent with FERC's clear guidance that calculation of a utility's avoided costs must take into account the pool of alternate sources of electricity available for procurement by the utility.[10] Oregon's RPS is not resource-type specific. Multiple renewable resources may be used to satisfy the requirement. Accordingly, there is no legitimate basis for PacifiCorp's proposal to have multiple renewable avoided cost price streams based on avoided costs of different renewable resource types.

Staff acknowledges that adjustments should be made to avoided costs based on the assumed costs of the utility's proxy resource to ensure that the avoided costs take into account the operating characteristics of the contracting QF. However, this is precisely what is done by making the adjustments prescribed in FERC's regulations, which are included in the methodology adopted by the Commission in Order 11-505. PacifiCorp's proposal to ensure that the operating characteristics of the contracting QF are taken into account by limiting the availability of renewable avoided cost prices to specific resource types is an inappropriate and unfair alternative to the adjustments contemplated by FERC.

Staff also acknowledges that the Commission should consider, for purposes of calculating avoided cost prices, whether to distinguish between renewable resources acquired to meet Oregon's RPS and those acquired because they are least cost. However, that consideration should not take place in this docket. The Commission has decided to schedule a Commission workshop to address "[c]hallenges that may exist with examining a utility's resource deficiency date for avoided cost purposes, including when the deficiency date identified in the IRP is outside the action plan window or when the utility pursues a resource action or RFP without IRP acknowledgment;" and "[t]he avoided cost implications where a utility is pursuing near-term capacity investments that are not driven by reliability, renewable portfolio standard (RPS), or

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[10] *California Public Utilities Commission,* 133 FERC 61,059, 61,266 (2010 WL 4144227).

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load-service needs."[11] The Commission's consideration of how different resource decisions should impact avoided cost prices should be deferred to any docket stemming from the workshop above. Staff does not recommend the Commission resolve this issue in this docket with PacifiCorp's amorphous and changing proposal.

III. The Commission should retain the market-price floor during sufficiency periods.

PacifiCorp urges the Commission to eliminate the market-price-floor for sufficiency period prices arguing that the Commission improperly based the requirement on the price the utility would be able to obtain upon re-sale in the market.[12] PacifiCorp overlooks the Commission's reliance on precedent in Order No. 05-584. In addition to any conclusions the Commission may have drawn regarding re-sale value of the QF's output, the Commission expressly noted that it imposed the market-price floor during sufficiency periods to ensure that QFs are compensated for capacity.[13] As the Commission decided in 2005, QFs are compensated for capacity during both resource sufficiency and deficiency periods, although they are compensated differently.[14] During deficiency periods, avoided capacity prices are based on the fixed costs of the next avoidable resource. During sufficiency periods, avoided capacity costs are assumed to be embedded in the forward market prices as of the utility's avoided cost filing.[15]

PacifiCorp's generalized concerns regarding transmission constraints are not sufficient reason to depart from the Commission's precedent that QFs should be compensated for capacity during the utilities' resource sufficiency periods.

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[11] *In the Matter of PacifiCorp, dba Pacific Power Investigation into Schedule 37 – Avoided Cost Purchases from Qualifying Facilities of 10,000 kW or Less,* Order No. 17-239, p. 3 (Order closing investigation and ordering workshop).

[12] PacifiCorp Opening Brief, p. 16.

[13] Order No. 16-337, p. 6.

[14] *In the Matter of Public Utility Commission of Oregon Staff's Investigation Relating to Electric Utility Purchases from Qualifying Facilities,* Order No. 05-584, p. 27 ("We conclude that the basis for differentiation [between deficiency-period and sufficiency-period prices] should not be whether capacity is valued *at all*, but *how* it is valued.")(Emphasis in original).

[15] *Id.*

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IV. Conclusion.

Staff recommends that the Commission adopt the Staff's recommendations in this docket set forth at pages 1-2 of its Opening Brief.

DATED this 25th day of September 2017.

Respectfully submitted,

ELLEN F. ROSENBLUM
Attorney General

Stephanie S. Andrus, #92512
Senior Assistant Attorney General
Of Attorneys for Staff of the Public Utility
Commission of Oregon

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784