

**BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON**

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| IN THE MATTER THE PUBLIC UTILITY) | |
| COMMISSION OF OREGON) | CASE NO. UM 1802 |
|) | |
| Investigation to Examine PacifiCorp, dba) | |
| Pacific Power's Non-Standard Avoided Cost) | |
| Pricing) | |
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Community Renewable Energy Association

Exhibit 100

Reply Testimony of Brian Skeahan

May 5, 2017

1 **I. Introduction**

2 **Q. Please state your name, employer, and business address.**

3 A. Brian Skeahan, Community Renewable Energy Association, 1113 Kelly Avenue, The
4 Dalles, Oregon, 97058. I am the Executive Director of CREA.

5 **Q. On whose behalf are you testifying?**

6 A. I am submitting testimony on behalf of the Community Renewable Energy Association
7 (“CREA”).

8 **Q. Please describe your educational and professional background.**

9 A. I have a Bachelor of Arts in Political Science and Public Administration from the
10 University of Nebraska, and a Master of Science in Public Administration from the University of
11 Oregon. I had a 30-year career in the public utility industry, beginning at the Springfield Utility
12 Board working in rates, power management and regional issues. I served as a General Manager at
13 a municipal utility in Nebraska for seven years, at Klickitat Public Utility District (“PUD”) in
14 Washington for nine years and at Cowlitz PUD for eight years. During this time I was heavily
15 involved in renewable energy development and policy, wholesale and retail rates, and various
16 Pacific Northwest regional power matters.

17 **Q. Have you testified in previous cases before administrative agencies on energy
18 regulatory topics?**

19 A. I have testified and been an expert witness before the Public Utility Commission of Oregon
20 (“Commission”) in Phase II of docket UM 1610 and in docket UM 1734. I have also testified in
21 in Bonneville Power Administration (“BPA”) rate proceedings.

22 **Q. What is CREA’s interest in this proceeding?**

23 A. CREA is an Oregon Revised Statutes Chapter 190 intergovernmental association. CREA

1 is a public/private organization whose members consists of individuals, businesses, and local
2 governments seeking to promote locally-owned renewable energy projects for all forms of
3 renewable generation recognized in Oregon’s Renewable Portfolio Standard (“RPS”) (biomass,
4 geothermal, hydropower, ocean thermal, solar, tidal, wave, wind and hydrogen). CREA is
5 comprised of several Oregon counties which provide active participation through their county
6 commissioners, including Sherman, Wasco, Gilliam, Harney, Hood River, Morrow, Polk, Union,
7 Wheeler, Curry, and Wallowa. In addition to these counties, CREA’s current membership
8 includes the Mid-Columbia Council of Governments, Columbia Gorge Community College, and
9 25 irrigation districts, businesses, individuals and non-profit organizations who have interests in
10 a viable community renewable energy sector for Oregon.

11 **Q. What is the purpose of your testimony?**

12 A. I will first provide testimony on community renewable energy projects and the importance
13 of the Public Utility Regulatory Policies Act of 1978 (“PURPA”), and in particular the
14 Commission’s critically important policy of offering renewable avoided cost rates to qualifying
15 facilities (“QFs”). Then, I will provide CREA’s position on how to appropriately provide and
16 calculate renewable avoided costs for QFs selling to PacifiCorp under non-standard rates, which
17 includes all solar QFs with nameplate capacity over 3 megawatts (“MW”) and all other QFs
18 resource types with nameplate capacity over 10 MW. CREA is also jointly sponsoring the
19 testimony of Kevin C. Higgins, who will address the technical and economic issues related to the
20 rate calculation issues.

21 **II. Community Renewable Energy and the Importance of PURPA**

22 **Q. What is community renewable energy?**

23 A. Usually community renewable energy refers to projects of 20 MW or less that have

1 substantial local ownership. Studies at Oregon State University, University of Minnesota, and
2 the National Renewable Energy Laboratories have all documented that locally owned projects
3 provide greater economic benefit to the local community than that which would be provided by a
4 larger, absentee-owned project.¹ These studies have demonstrated that locally owned projects
5 can result in a three-fold to five-fold increase in economic returns and benefits to the local
6 community over a larger, utility-scale project. Simply put, with local investors a greater portion
7 of the economic benefits of a community energy project stay within the local community
8 compared to a project without local ownership or participation. Therefore, CREA believes that
9 local ownership will result in increased economic development impacts for local Oregon
10 economies.

11 **Q. What are some of the difficulties and obstacles with developing a community-scale**
12 **project?**

13 A. Smaller scale, community renewable projects face all the same obstacles as larger scale
14 projects – such as environmental permitting, land use laws, transmission access, and
15 interconnection agreements. However, for smaller projects, the issues of financing and
16 negotiating power purchase agreements, including rates, are much more difficult than for larger
17 projects. Smaller projects by definition lack economies of scale. Costs associated with
18 licensing, permitting, interconnection studies, and contract negotiations are somewhat inelastic –
19 not varying in proportion to a project size. Even for relatively small projects with few
20 environmental impacts, the studies and work associated with obtaining necessary licenses and

¹ See, e.g., E. Lantz and S. Tegen, National Renewable Energy Laboratory, *Economic Development Impacts of Community Wind Projects: A Review and Empirical Evaluation*, (April 2009), available online at <http://www.nrel.gov/docs/fy09osti/45555.pdf> (last accessed May 5, 2017).

1 permits can become a significant proportion of the costs of constructing smaller projects.

2 Similarly, economic and financial analysis required for financing for small projects can
3 be a greater proportion of project costs. Banks and financing institutions tend to prefer larger
4 loan amounts where the risk can be syndicated amongst several institutions. They also have
5 understandable concerns regarding small projects whose revenues are fixed under purchased
6 power agreements but whose project costs are not. But most challenging are the problems of
7 actually negotiating a power purchase agreement and rates with a utility purchaser. The small
8 business person or farmer attempting to incorporate a biomass generation project into their
9 facility, or erect several wind turbines on their farm, or add solar panels to the roof of their
10 building, frankly face an investor-owned utility (“IOU”) that is not particularly welcoming, if not
11 outright hostile to smaller independent power producers. While the small independent power
12 producer must pay for the costs of negotiating contracts and applicable rates, the investor-owned
13 utility’s costs are ultimately paid for by the ratepayer creating a significant imbalance of power
14 in the negotiation. It is this imbalance of financial resources and subsequent power that the
15 Commission’s implementation of PURPA should be designed to mitigate.

16 **Q. Could you provide some examples of community renewable energy projects?**

17 A. While Oregon has a number of smaller QF type generation projects, there are a couple of
18 good examples of “community” renewable projects. The 9-MW PáTu Wind Farm in Sherman
19 County, developed by Ormand Hilderbrand, and 3-MW Lime Wind community wind project
20 outside of Baker City, owned and developed by Randy Joseph from the Baker City area, each
21 represent the benefits of small community-based projects. Washington has an interesting
22 example in the Coastal Wind project in Grays Harbor County. Coastal Wind is a 6-MW
23 community wind project that is owned by the Coastal Community Action Program. This project

1 provides more than \$500,000 through the Community Action Program to the community.

2 **Q. Does Oregon’s Renewable Portfolio Standard (“RPS”) refer to community**
3 **renewable energy projects?**

4 A. Yes, Oregon’s RPS law specifically references community-based renewable energy
5 projects and declares that such projects “are an essential element of this state’s energy future.”²

6 The law further provides a requirement that “by the year 2025, at least eight percent of the
7 aggregate electrical capacity of all electric companies that make sales of electricity to 25,000 or
8 more retail electricity consumers in this state must be composed of electricity generated by one
9 or both of the following sources: (a) Small-scale renewable energy projects with a generating
10 capacity of 20 megawatts or less; or (b) Facilities that generate electricity using biomass that
11 also generate thermal energy for a secondary purpose.”³

12 Because the investor-owned utilities are very unlikely to pursue those types of
13 community-based projects themselves, the Commission’s policies under PURPA are critical to
14 meeting these requirements. Unlike the other RPS requirements, this requirement cannot be
15 easily met by building a few large renewable (as defined in ORS 469A) energy plants because
16 most of these qualifying projects must be 20 MW or under. Additionally, it often takes several
17 years for projects to progress to full operation, and therefore waiting until just before 2025 to
18 achieve the eight-percent requirement will be too late.

19 It is important to note that based on information available to me, it appears that at this
20 time less than two percent of Oregon’s electric capacity is being supplied by renewable projects
21 less than 20 MW in size located in Oregon.

² ORS 469A.210(1).

³ ORS 469A.210(2).

1 **Q. Do you believe that PURPA is important to community energy projects?**

2 A. Congress recognized the value of creating a competitive electric generation environment
3 and the importance of smaller community-based projects in that competitive environment.
4 Congress, and the Federal Energy Regulatory Commission (“FERC”), understand that
5 transacting with a utility through PURPA is one of the only means by which small, independent
6 developers of renewable energy facilities may be able to develop projects and sell renewable
7 energy. Proper implementation of PURPA is a critical element of providing community-scale
8 projects with the ability to sell their output to an investor-owned utility under equitable terms and
9 conditions, at avoided cost rates that are reasonably projected to hold the utility’s customers
10 harmless as opposed to the utility’s otherwise available long-term generation resources.

11 **III. CREA’s Position on PacifiCorp’s Non-Standard Renewable Rates**

12 **Q. Could you summarize CREA’s position on availability of renewable rates for non-**
13 **standard QFs?**

14 A. CREA recommends that the Commission allow all renewable QFs the option to sell
15 renewable power at reasonable estimates of the avoided costs of the renewable generation
16 product supplied by those QFs, including those above the size threshold for standard rates
17 (currently 10 MW for all resources, except solar, which is 3 MW for PacifiCorp). CREA directs
18 the Commission to the testimony of Kevin C. Higgins which CREA has co-sponsored for
19 technical aspects of the rate calculation.

20 **Q. What is the background for the renewable rates implemented by the Commission?**

21 A. In docket UM 1396, the Commission sought comment on whether it should implement
22 renewable rates as suggested by FERC’s landmark decision in *California Public Utilities*

1 *Commission*.⁴ In that case, the California Public Utilities Commission had requested clarification
2 that the “‘full avoided cost’ need not be the lowest possible avoided cost and can properly take
3 into account real limitations on ‘alternate’ sources of energy imposed by state law.”⁵ FERC
4 clarified its avoided cost rules and declared that a state utility commission can implement a
5 higher avoided cost rate stream for QFs that allow the utility to avoid costs of compliance with
6 state law procurement requirements. In other words, a state utility commission has the authority
7 to create a separate avoided cost rate structure for QFs ceding renewable energy certificates
8 (“RECs”) to the utility if those RECs will help the utility avoid costs it would otherwise incur to
9 comply with a renewable portfolio standard pursuant to state law.

10 Ultimately, in UM 1396, the Commission adopted the renewable rate policy and
11 explained that, when renewable QFs are willing to sell their output and cede their RECs to the
12 utility, those QFs allow the utility to avoid building or buying renewable generation to meet their
13 energy and capacity needs as well as their RPS requirement.⁶ This policy reasonably allows QFs
14 to contribute to Oregon’s RPS goals, which is consistent with ORS 469A.210’s requirement of
15 acquiring a significant quantity of small-scale renewable energy projects no larger than 20 MW.

16 **Q. Why are the renewable rates important to CREA?**

17 A. CREA was one of the primary advocates for implementation of renewable rates in docket
18 UM 1396. The renewable rates are the only way that small, community scale projects can
19 contribute to Oregon’s RPS needs. Additionally, in a time of record-low natural gas and
20 wholesale electricity prices, the avoided costs calculated under the traditional method, based on a

⁴ 133 FERC ¶ 61,059 (Oct. 21, 2010) (order granting clarification and dismissing rehearing),
rehearing denied, 134 FERC ¶ 61,044 (January 20, 2011).

⁵ *Id* at P 21.

⁶ UM 1396, Order No. 11-505 at 9 (Dec. 13, 2011).

1 gas-fired proxy plant during the deficiency period, are far too low to support any meaningful QF
2 development. Therefore, Oregon’s RPS has been the driver for acquisition of small-scale
3 renewable resources, which has occurred primarily under PUPRA through the renewable rate
4 policy. The renewable avoided cost rates are therefore the only game in town for small-scale
5 renewable generators – both new projects and existing projects with expiring long-term
6 contracts. Additionally, access to these renewable rates, and the method of calculating them, for
7 non-standard rates has become more important for PacifiCorp recently because the Commission
8 lowered the threshold for standard rates available to solar QFs from 10 MW to 3 MW. Any solar
9 QF larger than 3 MW must now use the non-standard renewable rates for PacifiCorp at issue in
10 this proceeding.

11 The Commission made the right decision to require the utilities to offer renewable-based
12 pricing to QFs, and the Commission should reaffirm that policy here.

13 **Q. What is PacifiCorp proposing now?**

14 A. PacifiCorp proposes not to offer a renewable avoided cost rate to large QFs unless: 1) its
15 most recent integrated resource plan (“IRP”) identifies a need for a renewable resource of the
16 same type; and 2) the identified need exists during the term of the QF’s PPA. If the rates are
17 available, PacifiCorp’s proposal uses the partial displacement differential revenue requirement
18 (“PDDRR”) method to ensure that renewable QFs are only compensated for the renewable
19 aspects of their power when they happen to generate power from the same type of renewable
20 resource as the proxy renewable plant from PacifiCorp’s IRP.

21 **Q. Does CREA support PacifiCorp’s proposal?**

22 A. No. The renewable rates should be available to any non-standard QF that qualifies under
23 the RPS and can enable PacifiCorp to avoid costs associated with an RPS-compliant resource.

1 As we have seen in recent dockets, PacifiCorp can easily “game” its acquisition strategy in its
2 IRP without any negative repercussions. Additionally, the renewable rates should be available to
3 *any* renewable QF, not just those that supply energy from the same resource type that PacifiCorp
4 plans to acquire under the IRP. PacifiCorp’s proposal overly complicates the Commission’s
5 policy and should also be rejected on that basis. With respect to the technical rate calculation
6 methods, Mr. Higgins’s testimony provides a basis for the Commission to develop a non-
7 standard renewable rate calculation method that would be reasonable and advance the objectives
8 of the Commission’s PURPA policies.

9 **Q. Do you have any concluding comments?**

10 A. The Oregon legislature, in the 2016 session, made a major policy decision regarding
11 Oregon’s energy future with the passage of Senate Bill 1547. Oregon law now requires its
12 investor-owned utilities to be on a path toward 50 percent RPS compliance; it, as noted above,
13 requires by the year 2025, at least eight percent of the aggregate electrical capacity be provided
14 by community projects sized 20 MW or less; and it encourages diverse ownership of renewable
15 energy sources that generate qualifying electricity. CREA believes that the Commission’s
16 adoption of PacifiCorp’s proposal is not commensurate with the legislature’s intention regarding
17 Oregon’s future. We believe the testimony submitted by Kevin C. Higgins points toward a fair
18 and reasonable approach that better reflects the direction provided by the 2016 legislature.

19 **Q. Does that conclude your testimony?**

20 A. Yes.

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