

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1802

In the Matter of)

Investigation into PacifiCorp's Non-Standard)
Avoided Cost Pricing.)

RESPONSE TESTIMONY OF

JOHN R. LOWE AND BRIAN SKEAHAN

ON BEHALF OF THE

RENEWABLE ENERGY COALITION AND

THE COMMUNITY RENEWABLE ENERGY ASSOCIATION

August 14, 2017

1 **I. INTRODUCTION**

2 **Q Mr. Lowe, please state your name and business address.**

3 **A** My name is John R. Lowe. I am the director of the Renewable Energy Coalition
4 (the “Coalition”). My business address is P.O. Box 25576, Portland, Oregon
5 97298.

6 **Q Are you the same John R. Lowe who previously filed testimony on behalf of**
7 **the Coalition in this docket?**

8
9 **A** Yes.

10 **Q Mr. Skeahan, please state your name and business address.**

11 **A** My name is Brian Skeahan, Community Renewable Energy Association, 1113
12 Kelly Avenue, The Dalles, Oregon 97058. I am the Executive Director of the
13 Community Renewable Energy Association (“CREA”).

14 **Q Are you the same Brian Skeahan who previously filed testimony on behalf of**
15 **CREA in this docket?**

16
17 **A** Yes.

18 **Q Please summarize your joint response testimony.**

19 **A** The Coalition and CREA recommend that the Commission adhere to its existing
20 policies rather than allow PacifiCorp’s proposal to distort and undermine them.
21 More specifically, the Commission should confirm that all renewable qualifying
22 facilities (“QFs”) shall be given the option to sell their renewable power to
23 PacifiCorp at PacifiCorp’s renewable avoided cost rate, whether the QF is above
24 the size threshold for standard rates¹ or below it, and regardless of the resource
25 type or the rationale provided for the resource acquisition in the utility’s next

¹ Currently 10 megawatts (“MW”) for all resources, except solar, which is 3 MW.

1 planned acquisition in PacifiCorp’s integrated resource plan (“IRP”) or request for
2 proposal (“RFP”). The Commission has articulated clear policies on these issues,
3 and PacifiCorp’s attempts to circumvent those policies should not be encouraged.
4 If the Commission is inclined to change its policies to prevent QFs from selling
5 renewable power at renewable rates when the utility is acquiring renewable
6 resources and the actual avoided resource is being acquired based on economic
7 needs rather than solely to meet loads or renewable portfolio standard (“RPS”)
8 obligations, then the Commission should consider PacifiCorp’s novel proposal in
9 a generic investigation regarding the Public Utility Regulatory Policies Act
10 (“PURPA”).

11 However, the Commission should recognize that PacifiCorp’s new
12 proposal related to its 2021 Wyoming wind plant is in fact just a repackaged
13 version of PacifiCorp’s longstanding effort to artificially create a perpetual state
14 of resource sufficiency for purposes of calculating avoided costs. The critical
15 facts are that PacifiCorp is currently acquiring a major renewable resource, and it
16 will bank the renewable energy certificates (“REC”) generated by that resource
17 for compliance with Oregon’s RPS. Part of the basis of the acquisition decision is
18 to lock down an RPS-resource acquisition while full tax credit treatment is
19 available, i.e. compliance will be more expensive later. These facts conclusively
20 disprove PacifiCorp’s claims in recent IRPs as to its renewable sufficiency for the
21 entire planning horizon. Yet PacifiCorp tries to actually use these facts to support
22 pushing its avoided cost sufficiency period out even further. The Commission
23 should reject PacifiCorp’s disingenuous argument.

1 **II. PACIFICORP'S REVISED PROPOSAL**

2 **Q What was PacifiCorp's original proposal in this proceeding?**

3 **A** In January, PacifiCorp proposed a "like-for-like" qualifier to the calculation of its
4 non-standard avoided cost prices under the guise of establishing a Partial
5 Displacement Differential Revenue Requirement ("PPDDR") methodology for
6 non-standard renewable QFs. Specifically, PacifiCorp proposed that non-standard
7 renewable avoided cost pricing should only be available to QFs with the same
8 type of resource as that identified in PacifiCorp's most recent IRP.² This means
9 that if PacifiCorp's most recent IRP called for a new wind plant, that only QFs
10 selling power from a wind plant would be eligible for PacifiCorp's renewable
11 avoided cost rate, and that other types of renewable generation should be paid at
12 the non-renewable avoided cost rate.

13 **Q What is PacifiCorp's revised proposal?**

14 **A** In July, after several procedural delays, PacifiCorp filed additional testimony to
15 revise its proposal to add another qualifier, in addition to the "like-for-like"
16 precondition described above, for the calculation of its non-standard renewable
17 avoided cost prices. PacifiCorp is now proposing that its non-standard renewable
18 avoided cost pricing should be calculated based on avoided Oregon RPS
19 compliance cost rather than the renewable resource acquisition planned for in its
20 most recent IRP. This means that when PacifiCorp's IRP called for renewable

² It is worth noting that PacifiCorp has not clarified whether this would mean its most recently acknowledged IRP, or if an unacknowledged IRP or IRP Update would suffice.

1 resources to be procured for economic reasons, ahead of its regulatory compliance
2 need, those acquisitions would not impact PacifiCorp's avoided cost rates.³

3 **Q What is PacifiCorp's rationale for distinguishing between economic**
4 **purchases and compliance-driven purchases when calculating its renewable**
5 **avoided cost rate?**

6 **A** PacifiCorp essentially maintains that QFs cannot cause a utility to avoid a
7 purchase made purely for economic reasons, and should not be compensated
8 beyond purchases made for compliance reasons.

9 **Q Do you agree with PacifiCorp's position?**

10 **A** No. That is not how PURPA works. When PacifiCorp purchases renewable
11 power from QFs who also convey their RECs to PacifiCorp, those QFs are
12 allowing the utility to avoid building (or buying) new renewable generation, and
13 should be compensated accordingly.

14 Additionally, PacifiCorp's policy argument is not even supported by the
15 facts that it asserts to exist. The premise of PacifiCorp's argument appears to be a
16 suggestion that the planned Wyoming wind resource is analogous to an
17 opportunistic acquisition of "brown power" available today at low cost, and that
18 the existence of Oregon's RPS does not contribute to the decision to acquire the
19 resource at all. The argument continues that because the resource is not acquired
20 to comply with the RPS, the renewable rates tied to RPS compliance are
21 inapplicable. But the facts do not support PacifiCorp's argument because
22 PacifiCorp is not proposing to simply acquire a "brown power" resource; instead
23 it intends to acquire an RPS resource from which it will bank the RECs for

³ E.g., PacifiCorp's 2017 IRP Action Plan includes an "unnecessary" renewable resource acquisition.

1 Oregon-RPS compliance. In fact, PacifiCorp touts the compliance value of the
2 RECs from its 2021 Wyoming wind resource as being superior to RECs that
3 might otherwise be supplied from an Oregon QF.⁴

4 **Q Why did PacifiCorp raise the “RPS avoided cost” issue after parties had**
5 **already responded to its first round of testimony?**

6 **A** PacifiCorp claims that it identified this issue while preparing its response
7 testimony, and that changed circumstances triggered policy issues not previously
8 considered in this docket. According to PacifiCorp, the company’s own decision
9 to include cost-effective wind resources in its 2017 IRP Action Plan constitutes
10 changed circumstances that warrant altering the scope of this limited
11 investigation, which was opened nearly a year ago. Broadly speaking, PacifiCorp
12 reasons that because it doesn’t need a new renewable resource in Wyoming, but
13 has decided to move forward with an early acquisition strategy for economic
14 reasons, it is not really appropriate to pay avoided cost rates based on a resource
15 (claims) it does not really need.

16 **Q Do you have any procedural concerns with PacifiCorp’s revised proposal?**

17 **A** Yes. The Commission should not consider PacifiCorp’s proposal on procedural
18 grounds because PacifiCorp waited to completely change its position late in the
19 process. PacifiCorp claims that it did not understand that its position changed
20 until late in the process; the timing of PacifiCorp’s changed position, however,
21 does not match historic truth or factual reality. One can only wonder when
22 PacifiCorp decided to build a wind resource in Wyoming, but the Company
23 purchased wind-turbine-generator equipment in December 2016. PacifiCorp’s

⁴ PAC/300, McNeil/25:1-13.

1 Opening Testimony was filed in January 2017, likely months after PacifiCorp was
2 aware of these “changed circumstances.” More likely, PacifiCorp understood that
3 it’s “like for like” proposal made little rational or regulatory sense, and it simply
4 came up with a new, creative approach to refuse to compensate renewable QFs for
5 the renewable attributes of their power.

6 **III. THE COALITION AND CREA’S RECOMMENDATION**

7 **Q How do the Coalition and CREA suggest the Commission address**
8 **PacifiCorp’s revised proposal?**

9 **A** We do not believe that PacifiCorp’s revised proposal to limit access to renewable
10 rates for non-standard QFs has any merit. The best way for the Commission to
11 address the policy considerations raised by PacifiCorp’s revised proposal is to
12 affirm the Commission’s existing policy, and require PacifiCorp to continue
13 offering a renewable price stream to large QFs. If the Commission believes
14 PacifiCorp’s new qualifiers (“like-for-like” or “RPS compliance cost”) are worthy
15 of serious consideration, the Commission should determine if those are
16 appropriate preconditions to receiving a renewable avoided cost rates in a generic
17 PURPA proceeding.

18 **Q Is this docket the appropriate place for the Commission to adopt**
19 **PacifiCorp’s revised proposal?**

20 **A** No. PacifiCorp effectively asks the Commission to reverse its longstanding
21 policy on access to renewable-based pricing established in Order No. 11-505.
22 This proceeding was opened as a limited, expedited investigation to examine a
23 narrow issue, which PacifiCorp describes as “how to calculate a renewable

1 PDDRR price stream for PacifiCorp’s non-standard QF purchases”⁵. However,
2 under that guise PacifiCorp has raised two separate issues that would substantially
3 alter, not to mention undermine, existing Commission policy. PacifiCorp’s
4 recommendations, much like its portrayal of its PDDRR methodology (that
5 notably did not address the removal of a non-standard renewable avoided cost
6 price stream) is essentially just another collateral attack on the Commission’s
7 existing policy.

8 **Q Does PacifiCorp agree that this docket is not the appropriate place for the**
9 **Commission to adopt PacifiCorp’s revised proposal for the renewable price**
10 **stream?**

11 **A** Kind of. PacifiCorp states that it “believes that the appropriate path forward is to
12 investigate these issue in a generic docket involving a full range of stakeholders
13 and all Oregon utilities with mandatory Public Utility Regulatory Policies Act of
14 1978 (PURPA) purchase obligations.”⁶ Yet, that belief is inconsistent with its
15 overall position to simply utilize its new “non-RPS avoided cost price stream”
16 until the larger policy questions can be resolved.

17 **Q What is the practical effect of PacifiCorp’s revised proposal?**

18 **A** PacifiCorp is essentially asking the Commission to allow it to use three separate
19 sufficiency deficiency demarcation dates for only two different prices. To
20 distinguish between an economic need and a compliance need when planning to
21 acquire new renewable resources, PacifiCorp would need to have three
22 sufficiency periods (non-renewable, renewable RPS, and renewable non-RPS)
23 instead of the two required by the Commission. Worse yet, PacifiCorp is only

⁵ PAC/300, MacNeil/4.

⁶ PAC/300, MacNeil/4.

1 planning to pay QFs two different avoided cost rates (either the new “RPS
2 renewable” rate or the old non-renewable rate). So, non-RPS renewable
3 acquisitions would never be part of the QF’s avoided cost rate.

4 Common sense indicates that PacifiCorp’s current sizeable REC bank,
5 plus the fact that renewable generation is generally a purely “economic” decision,
6 will mean that if PacifiCorp’s proposals were adopted, QFs would never receive
7 an avoided cost rate from PacifiCorp again. Every single major actual or planned
8 major renewable resource that PacifiCorp has acquired was based on economic
9 need, rather than solely RPS compliance. Essentially, PacifiCorp has always
10 claimed that its renewable acquisitions were prudent regardless of its RPS
11 obligations.

12 PacifiCorp already does not have a regulatory compliance need until 2035,
13 but is still planning to buy new renewable resources anyway. And as PacifiCorp
14 pointed out, its current regulatory need is already longer than a QF contract. After
15 PacifiCorp’s 2017 “economic” acquisition, its compliance need will be pushed
16 even further out. If PacifiCorp’s proposal were adopted, it could be that
17 PacifiCorp may never have a regulatory compliance need within the QF contract
18 term as it buys renewable resources for economic purposes and keep pushing out
19 the date of its illusory regulatory need. And if PacifiCorp were ever successful at
20 shortening the QF contract term in Oregon, as it has often requested, an RPS
21 avoided cost rate would be rendered completely useless.

22 **Q Is there evidence that PacifiCorp has a need for RPS-compliant resources**
23 **now?**

24 **A** Yes. In addition to its ongoing acquisition of a Wyoming wind plant,
25

1 PacifiCorp’s claim that it does not have a need for RPS-compliant resources at
2 this time is further belied by the fact that PacifiCorp held a REC RFP last year,
3 where it ultimately purchased unbundled RECs, and that it just released another
4 REC RFP.⁷ This only further demonstrates – as we have argued previously in
5 numerous dockets – that PacifiCorp acquires RPS-compliance resources ahead of
6 the compliance need (which is the date penalties for noncompliance kick in), and
7 those acquisitions are evidence of RPS-compliance actions that support payment
8 to Oregon QFs at the renewable avoided cost rates.

9 **Q Is PacifiCorp correct that Oregon QFs cannot help to avoid or defer an**
10 **economic renewable resource acquisition in Wyoming?**

11 **A** No. PacifiCorp has identified a need for new renewable resources, and QFs in
12 Oregon will help delay or defer that resource need whether it is economic-based,
13 compliance-based, or otherwise. PacifiCorp’s revised proposal suggests that the
14 only reason to compensate QFs at the incremental costs associated with the new
15 renewable resource acquisition proposed in its 2017 IRP would be to compensate
16 for the value of the RECs associated with that renewable power purchase, and
17 only if PacifiCorp had a compliance need.

18 **IV. WHAT DOES OREGON’S CURRENT POLICY REQUIRE?**

19 **Q When did the Commission determine there should be a separate renewable**
20 **avoided cost rate?**

21 **A** The Commission adopted separate renewable avoided cost rates in 2011.⁸

22 **Q Why did the Commission create a separate renewable avoided cost rate?**

⁷ Available at <http://www.pacificorp.com/sup/rfps/2017-272-REC-RFP.html>.

⁸ Re Commission Investigation Into Resource Sufficiency Pursuant to Order No. 06-538, Docket No. Um 1396, Order No. 11-505 at 4 (Dec. 13, 2011).

1 **A** Order No. 11-505 explains that because Oregon’s RPS required acquisition of
2 renewable power (and RECs), the renewable avoided cost rate was consistent with
3 PURPA.

4 **Q** **Please summarize the Commission’s current policy for calculating the**
5 **renewable and non-renewable avoided cost rates.**

6 **A** The utility’s IRP is often considered the starting point for calculating avoided cost
7 prices, because the year of the first planned major resource acquisition in the most
8 recently acknowledged IRP sets the sufficiency deficiency demarcation date.⁹
9 The Commission has defined a major resource by its size and duration; if a
10 generation resource is 100 MW (or larger) and last for five years (or longer) it is
11 considered a major resource.

12 The sufficiency period is the most significant criteria for calculating a
13 utility’s avoided cost rate, because during a utility’s sufficiency period QFs are
14 paid at the market rate, and during a utility’s deficiency period QFs are paid at the
15 utility’s avoided cost rate. When renewable QFs are paid at the market rate, they
16 maintain their RECs; but when QFs are paid the renewable rate, they must cede
17 their RECs over to the purchasing utility. The difference between a utility’s
18 renewable and market rate is constantly in flux, but at times can be quite
19 substantial. The value of the RECs being ceded, however, is less certain and, with
20 the low value of RECs in the past few years, has not yet had as consequential a
21 role as the price delta between these two rates.

22 Because utilities have two separate avoided cost rate price streams
23 (renewable and non-renewable), they also have two different sufficiency periods

⁹ Id.

1 derived from their IRPs. Thus, both the next planned renewable and non-
2 renewable major resource acquisitions have historically impact the avoided cost
3 prices paid to QFs differently.

4 According to PURPA, a utility's avoided cost rate must be just and
5 reasonable and in the public interest, but it cannot exceed the utility's incremental
6 cost. PURPA regulations define a utility's incremental cost as those which, but
7 for the purchase from the QF, a utility would generate itself or purchase from
8 another source.¹⁰ Although avoided costs cannot exceed the incremental cost to a
9 utility, it is widely acknowledged that avoided costs are not set in real-time, and
10 that the regulatory process used to determine a utility's avoided cost rates create a
11 bit of a lag that can cause avoided costs to vary from a utility's precise avoided
12 costs.

13 **Q Do you believe PacifiCorp's proposal would violate PURPA?**

14 **A** Yes. While I am not an attorney, PacifiCorp's proposal would effectively
15 eliminate capacity payments and make it impossible for a QF to defer
16 PacifiCorp's actual or planned avoided costs. PacifiCorp is not planning on
17 acquiring new thermal resources until 2029.¹¹ PacifiCorp, however, is planning
18 on acquiring over 1,100 MW of wind resources. Thus, the failure to compensate

¹⁰ 18 CFR § 292.101(b)(6).

¹¹ This deficiency date in the IRP is very likely to be incorrect because it assumes continued operation of PacifiCorp's coal fleet. We expect that this date will move up quickly once PacifiCorp decides to invest its capital in new gas plants, similar to how the renewable deficiency date was set out more than 20 years and moved up once PacifiCorp decided to invest new capital in renewable resources. PacifiCorp uses the IRP to propose long sufficiency periods for the purposes of avoided costs, but then moves quickly when it makes efforts to actually acquire resources.

1 QFs for these actual planned resources will result in avoided cost rates that only
2 compensate QFs for a portion of the resources that PacifiCorp will acquire (short
3 term market purchases) and not the more expensive investments (new wind, wind
4 repowering and coal plant investments).

5 **Q What has the Federal Energy Regulatory Commission (“FERC”) said about**
6 **a separate renewable avoided cost rate?**

7 **A** In Order No. 11-505, the Commission explained that it relied upon a 2010 FERC
8 decision permitting a multi-tiered avoided cost structure in California that had
9 different avoided cost price streams for different resource types.¹² In that order,
10 FERC explained that it was not inconsistent with PURPA for states to consider
11 state-imposed obligations, such as renewable portfolio standards, when
12 determining the costs a utility avoids by making QF purchases.

13 **Q Has the Commission ever addressed PacifiCorp’s like-for-like proposal?**

14 **A** Yes. In Order No. 11-505, the Commission declined to derive avoided costs for
15 each type of renewable resource. Instead the Commission decided to allow QFs
16 to select between the renewable and non-renewable price streams to reflect certain
17 characteristics. The Commission reasoned, “[r]enewable QFs willing to sell their
18 output and cede their RECs to the utility allow the utility to avoid building (or
19 buying) renewable generation to meet their RPS requirements. These QFs should
20 be offered an avoided cost stream that reflects the cost that utility will avoid.”¹³

¹² Order No. 11-505 at 4 (citing California Public Utilities Commission, 132 FERC ¶ 61.059 at PP. 13-14 (2010) (“where a state requires a utility to procure a certain percentage of energy from generators with certain characteristics, generations with those characteristics constitute the sources that are relevant to the determination of the utility’s avoided cost for that procurement requirement”)).

¹³ Id. at 9.

1 **Q Are RPS compliance costs higher or lower than the incremental costs of a**
2 **new renewable resource?**

3 **A** Who knows. There is almost no transparency around REC prices and a utility's
4 incremental costs vary widely depending on what it is planning in its IRP.
5 PacifiCorp claims that its RPS compliance costs are significantly lower than the
6 incremental costs to build a new renewable resource and that causing PacifiCorp
7 to pay avoided costs based on its actual acquisitions violates PURPA's customer
8 indifference standard. This mischaracterizes the spirit and purpose of PURPA's
9 avoided cost rates, as well as Oregon's own statutes promoting QFs and
10 generation from renewable resources under 20 MW in size, and has not been
11 demonstrated by actual evidence. And if PacifiCorp is correct, then its IRP
12 planning process is fundamentally flawed by producing resource costs and inputs
13 that are different than PacifiCorp's actual costs. The remedy would be to more
14 closely align PacifiCorp's IRP planned resources with actual costs rather than to
15 make an ad hoc change with the purpose of undermining QFs.

16 More significantly, PacifiCorp appears to suggest that its RPS compliance
17 costs are zero—at least so long as it maintains a large REC bank. Or stated
18 another way, PacifiCorp suggests that a QF should only get a renewable rate when
19 PacifiCorp decides that its REC bank is low enough that it has a true regulatory
20 compliance need. That just doesn't make any sense because PacifiCorp's REC
21 bank comes from the very renewable resource acquisitions that it doesn't believe
22 can be avoided. The fact that renewable power builds PacifiCorp's REC bank
23 (which in turn defers a compliance need) ought to demonstrate the plain and

1 simple reality that a QF's renewable power can and does defer a future
2 compliance need.

3 **Q What does any of this have to do with PacifiCorp's PPDDR methodology?**

4 **A** Nothing. The policy issues raised by PacifiCorp (whether receiving a renewable
5 rate ought to be contingent upon a like-for-like resource type or whether
6 PacifiCorp's "economic" acquisitions should affect its avoided cost rates) do not
7 need to be resolved at this time. These issues are better addressed in a generic
8 investigation with proper notice and consideration. The Commission should
9 simply direct PacifiCorp to use its PPDDR methodology to generate a non-
10 standard renewable avoided cost rate according to existing Commission policy,
11 and save these policy questions for a more appropriate forum.

12 **V. CONCLUSION**

13 **Q Does this conclude your testimony?**

14 **A** Yes.

BEFORE THE PUBLIC UTILITY COMMISSION

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RESPONSE TESTIMONY OF

KEVIN C. HIGGINS

ON BEHALF OF

RENEWABLE ENERGY COALITION AND

THE COMMUNITY RENEWABLE ENERGY ASSOCIATION

August 14, 2017

1 **I. INTRODUCTION**

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

3 A My name is Kevin C. Higgins. My business address is 215 South State Street,
4 Suite 200, Salt Lake City, Utah, 84111.

5 **Q By whom are you employed and in what capacity?**

6 A I am a Principal with Energy Strategies, LLC. Energy Strategies is a private
7 consulting firm specializing in economic and policy analysis applicable to energy
8 production, transportation, and consumption.

9 **Q Are you the same Kevin C. Higgins who previously submitted prefiled Reply**
10 **Testimony in this proceeding on behalf of the Renewable Energy Coalition**
11 **(the “REC”) and the Community Renewable Energy Association (“CREA”)?**
12

13 A Yes, I am.

14 **II. OVERVIEW AND CONCLUSIONS**

15 **Q What is the purpose of your Response Testimony in this proceeding?**

16 A My Response Testimony responds to the updated discussion in the July 2017
17 Opening Testimony of PacifiCorp witness Daniel J. MacNeil regarding the use of
18 the Partial Displacement Differential Revenue Requirement (“PDDRR”) method
19 to calculate avoided cost prices for non-standard renewable Qualifying Facilities
20 (“QFs”). In particular, I respond to Mr. MacNeil’s discussion of the
21 modifications I recommended in my Reply Testimony regarding Mr. MacNeil’s
22 January 2017 proposals.

23 **Q Please summarize your primary conclusions and recommendations.**

24 A My primary conclusions and recommendations are essentially unchanged from
25 my Reply Testimony, as nothing in the July 2017 Opening Testimony of

1 PacifiCorp (or the “Company”) has caused me to change them. I restate them
2 here in response to the Company’s July 2017 Opening Testimony:

3 (1) The Company’s proposal to limit the deferral of a renewable resource
4 to resources *of the same type* as the QF is unduly restrictive and unreasonable.
5 Instead, any renewable QF should be able to have its avoided cost pricing
6 determined based on deferral of the next renewable resource irrespective of type,
7 with appropriate adjustments for capacity equivalence. The total avoided capacity
8 and energy cost that results will reasonably reflect the avoided cost of the deferred
9 resource within the framework of the PDDRR method that has been accepted by
10 the Commission, and is therefore a reasonable basis for pricing power produced
11 by non-standard renewable QFs. PacifiCorp’s assertions that its plans for
12 renewable resource investment are driven by cost-effectiveness rather than
13 Renewable Portfolio Standard (“RPS”) requirements do not alter this conclusion.
14 Cost-effective renewable resources should not be immune from being displaced
15 by renewable QFs of different resource types, after appropriate adjustments for
16 capacity equivalence.

17 (2) I recommend that the Commission rule affirmatively that the 2021
18 Wyoming Wind resource identified in PacifiCorp’s 2017 Integrated Resource
19 Plan (“IRP”) should be considered as partially displaceable or deferrable for the
20 purpose of determining avoided capacity and energy costs. Based on the
21 assertions made in the Company’s July 2017 testimony, it appears that PacifiCorp
22 considers the 2021 Wyoming Wind resource to be such a good deal for customers
23 that the Company will acquire as much of it as it physically can, irrespective of

1 the availability of other supplies such as QF power, limited only by the transfer
2 capability of the transmission system to deliver the 2021 Wyoming Wind to load
3 (after taking into account the Energy Gateway transmission upgrade the Company
4 is proposing). This is tantamount to declaring that the Company's demand for
5 long-term power supply at the price of this resource is open-ended over some
6 significant range. That being the case, the 2021 Wyoming Wind project clearly
7 represents a reasonable basis for determining the avoided cost for Oregon QFs. In
8 addition, the Company's assertions regarding the 2021 Wyoming Wind resource
9 raise the question as to whether an Oregon QF should be credited *additionally*
10 with (the equivalent of) avoided transmission costs, since the 2021 Wyoming
11 Wind resource apparently requires incremental transmission investment from the
12 Company in order to get built.

13 (3) The Company's January 2017 proposal to allow a prospective
14 renewable QF the option of having its avoided cost pricing based on the next
15 deferrable thermal resource, while reasonable in concept, does not allow the QF to
16 compare the pricing results from the available options prior to selecting its
17 preferred pricing stream. The implementation of this option should be modified
18 to allow the QF to have access to the avoided cost pricing information for each of
19 the available pricing options at the outset of the pricing process.

20 (4) In general, PacifiCorp proposes to use the same QF queuing
21 assumptions used in Utah, in which all QFs with signed contracts *plus* all QFs that
22 have begun the power purchase agreement process are included in the QF pricing
23 queue. In my opinion, the Utah queuing assumptions understate avoided costs.

1 A more reasonable queuing approach is the one used in Wyoming, in which only
2 QFs with signed contracts are included in the QF pricing queue. This latter
3 queuing approach is more representative of avoided costs, and thus more
4 reasonable. The Commission could also consider a modification to the Wyoming
5 approach in which the indicative pricing provided to a QF is not subject to change
6 for a specified time, such as 60-90 days. I am encouraged that in its July 2017
7 testimony, PacifiCorp shows some flexibility with regard to using the Wyoming
8 queuing approach in certain circumstances.

9 (5) The Company has proposed to eliminate the market price floor from
10 the non-standard avoided cost calculation. My understanding is that the adoption
11 of a market price floor accompanied the Commission's decision to adopt the
12 PDDRR method in UM 1610. Consequently, it appears that the Company's
13 proposed change is directed to a previously resolved issue and is outside the scope
14 of this proceeding.

15 **III. RESPONSE TO MR. MACNEIL ON THE SUBJECT OF LIMITING THE**
16 **DEFERRAL OF A RENEWABLE RESOURCE TO RESOURCES OF THE**
17 **SAME TYPE**

18
19 **Q How has Mr. MacNeil responded to your critique that the Company's**
20 **proposal to limit the deferral of a renewable resource to resources *of the***
21 ***same type* as the QF is unduly restrictive and unreasonable?**

22 **A** Mr. MacNeil opposes my recommendation that any renewable QF should be able
23 to have its avoided cost pricing determined based on deferral of the next
24 renewable resource irrespective of type, with appropriate adjustments for capacity
25 equivalence. In its July 2017 filing, PacifiCorp has altered its position regarding
26 the pricing of renewable QFs. The Company now maintains that the "renewable"
27 attribute does not have special significance for QF pricing. The more relevant

1 attribute for a renewable QF, the Company now asserts, is whether it provides for
2 the deferral of RPS compliance costs.

3 Mr. MacNeil goes on to state that the Company's wind, solar, and
4 geothermal resources in its IRP are cost-effective components of the least-cost,
5 least-risk portfolio, and are not driven by RPS requirements. He opposes the
6 displacement of cost-effective renewable resources by QFs of different resource
7 types because he believes doing so may not ensure reasonable alignment between
8 the operating characteristics of a QF and the resources it defers from the preferred
9 portfolio.

10 **Q What is your response to Mr. MacNeil's contention?**

11 A Simply because particular renewable resources are in the IRP preferred portfolio
12 as cost-effective resources should not make them immune from being displaced
13 by renewable QFs of different resource types, after appropriate adjustments for
14 capacity equivalence. The applicability of my argument here does not depend on
15 the Company resources *not* being cost effective. It simply means that the QF
16 pricing would be based on displacement of a cost-effective resource.

17 **Q. Does Mr. MacNeil offer any other criticisms of your argument?**

18 A. Yes. He calculates illustrative avoided cost prices that would obtain for
19 hypothetical Oregon solar, biomass, and wind QFs credited with displacing the
20 Company's 2021 Wyoming Wind resource (notwithstanding PacifiCorp's claim
21 that this resource is not displaceable by an Oregon QF). Mr. MacNeil contends
22 that the resulting pricing for the solar and biomass QFs are not reasonably
23 consistent with the Company's capacity needs and costs. He also comments
24 critically that the resultant avoided costs make it more likely that a solar QF

1 would be expected to elect a ten-year contract term than a longer term because its
2 PDDRR-calculated value (excluding market floor) declines significantly after ten
3 years.¹

4 **Q What is your response to this criticism?**

5 A As I pointed out in my Reply Testimony, ultimately, it is PacifiCorp's costs that
6 are being avoided through the PDDRR calculation. If, for some reason, the
7 resulting avoided costs appear too high to the Company, the cause is directly
8 traceable to the assumed costs of the Company's owned planned resources.
9 Further, Mr. MacNeil's calculations exclude any avoided transmission costs
10 associated with the QF resources, even though incremental transmission expense
11 is an integral part of the successful completion of the 2021 Wyoming Wind
12 resource. If avoided transmission cost was included in the avoided cost pricing,
13 the QF pricing after 10 years would not be nearly as low as depicted by Mr.
14 MacNeil. Finally, there is no small irony in PacifiCorp's criticism that a QF may
15 prefer a shorter-term contract in certain situations – in light of the Company's
16 several recent attempts to limit QFs to short-term deals.

17 **IV. RESPONSE TO MR. MACNEIL ON THE SUBJECT OF WHETHER THE**
18 **2021 WYOMING WIND RESOURCE SHOULD BE DEFERRABLE FOR**
19 **AN OREGON QF**
20

21 **Q How has PacifiCorp responded to your recommendation that the 1,100 MW**
22 **2021 Wyoming Wind resource identified in PacifiCorp's 2017 IRP should be**
23 **considered as partially displaceable or deferrable for the purpose of**
24 **determining avoided capacity and energy costs?**
25

¹ July 2017 Opening Testimony of Daniel J. MacNeil, at 22.

1 A Mr. MacNeil continues to take the position that the 2021 Wyoming Wind
2 resource is not deferrable for QF projects that do not interconnect with and/or use
3 PacifiCorp's Wyoming transmission system (*i.e.*, Oregon QFs).

4 According to Mr. MacNeil, two characteristics of the 2021 Wyoming wind
5 resources make them inappropriate to consider for capacity deferral:

6 First, these resources cannot be deferred to a later date, as they would not
7 qualify for the [production tax credit ("PTC")] after December 31, 2020. The
8 loss of the PTC would eliminate much of the benefits associated with the 2021
9 Wyoming wind resources. And without those benefits, the Wyoming wind
10 would not be part of PacifiCorp's least-cost, least-risk plan to reliably meet
11 system load.

12
13 Second, the transmission line that enables the addition of these resources to
14 PacifiCorp's system cannot be reduced in size. To the extent it is economic to
15 build it at all, an optimized resource plan would continue to include as much
16 of the 2021 Wyoming wind resource as possible, so long as it provides
17 benefits in excess of its costs. As a result of these characteristics, resources
18 outside of the area of the new transmission line would not either delay or
19 supplant the 2021 Wyoming wind resources in the 2017 IRP preferred
20 portfolio.²

21 **Q What is your reaction to these assertions?**³

22 A My interpretation of these assertions is that PacifiCorp considers the 2021
23 Wyoming Wind resource to be such a good deal for customers that the Company
24 will acquire as much of it as it physically can, irrespective of the availability of
25 other supplies such as QF power, limited only by the transfer capability of the

² Id. at 26-27.

³ My understanding is that Oregon's current approach to renewable avoided cost pricing for standard contracts bases the renewable rate on the next deferrable renewable resource regardless of whether that planned resource is needed for renewable portfolio standard requirements or other purposes. In other words, the renewable deficiency period starts when PacifiCorp is planning to acquire a renewable resource regardless of the reason. Messrs. Lowe and Skeahan address this issue in their Response Testimony.

1 transmission system to deliver the 2021 Wyoming Wind to load (after taking into
2 account the Energy Gateway transmission upgrade the Company is proposing).
3 This is tantamount to declaring that the Company's demand for long-term power
4 supply at the price of this resource is open-ended over some significant range.
5 That being the case, the 2021 Wyoming Wind project clearly represents a
6 reasonable basis for determining the avoided cost for Oregon QFs. Since, by its
7 own admission, PacifiCorp's demand for long-term power at this price is open-
8 ended over a significant range, it stands to reason that Oregon QFs that can
9 provide long-term resources at the same cost PacifiCorp is incurring should be
10 paid that same price. Notably, because of the unusual, open-ended nature of
11 PacifiCorp's demand for long-term power at this price, it should not be necessary
12 for the QF to actually displace the 2021 Wyoming Wind to qualify for this price,
13 since PacifiCorp has declared the 2021 Wyoming Wind as "non-displaceable"
14 (because the Company considers it to be such a good deal).

15 In addition, the Company's assertions regarding the 2021 Wyoming Wind
16 resource raise the question as to whether an Oregon QF should be credited
17 *additionally* with (the equivalent of) avoided transmission costs, since the 2021
18 Wyoming Wind resource apparently requires incremental transmission investment
19 from the Company in order to get built.

20 V. **RESPONSE TO MR. MACNEIL REGARDING THE QF QUEUEING**
21 **METHOD USED IN CONJUNCTION WITH THE PDDRR**
22 **CALCULATION**

23
24 Q **How has Mr. MacNeil responded to your recommendation that the QF**
25 **queuing method used in conjunction with the PDDRR calculation should be**
26 **modeled after the queuing method approved in Wyoming rather than the one**
27 **used in Utah?**

1
2 A According to Mr. MacNeil’s July 2017 testimony, PacifiCorp appears to be
3 showing some flexibility on this point. As I discussed in my Reply Testimony,
4 the QF queue in Wyoming includes only QFs with signed contracts, rather than all
5 potential QFs, but it is also subject to being updated as new QF contracts are
6 signed. Mr. MacNeil states that under certain circumstances it might be
7 reasonable to include only signed contracts in the QF queue. Specifically, he
8 states:

9 If a QF signs a final execution version of a contract which is subject to the
10 determination of pricing, PacifiCorp would be willing to provide pricing with
11 only previously signed contracts incorporated in the potential QF queue and
12 incorporating assumptions as of the time the contract is signed. The contract
13 could include the right to terminate the contract within 30 days of receiving
14 final pricing if it was inadequate to support development of their project. This
15 would ensure that the impact of successive proposals is reflected in QF pricing
16 and that projects which are not moving forward are removed in a timely
17 manner.⁴
18

19 **Q What is your response to this statement?**

20 A Generally, I find it encouraging that the Company appears to be showing some
21 flexibility on this issue. My recommendations on this topic are laid out in my
22 Reply Testimony.⁵ It may be that the Company is proposing terms more
23 restrictive than I have proposed – it is not entirely clear to me from the passage I
24 have quoted above. In summary, I continue to maintain that the queuing method
25 used in Wyoming, in which only QFs with signed contracts are included in the QF
26 pricing queue, but which also requires the pricing queue to be updated as new QF
27 contracts are signed, is more reasonable than the queuing method used in Utah,

⁴ Id. at 45-46.

⁵ See Reply Testimony of Kevin C. Higgins, at 22-25,

1 which appears to be PacifiCorp's preferred option in this case. The Commission
2 could also consider a modification to the Wyoming approach in which the
3 indicative pricing provided to a QF is not subject to change for a specified time,
4 such as 60-90 days.

5 **VI. CONCLUSION**

6 **Q Does this conclude your Response Testimony?**

7 **A Yes, it does.**