

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

AR 495

In the Matter of)
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PUBLIC UTILITY COMMISSION)
OF OREGON,)
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Proposed Rulemaking to Adopt and Amend)
Rules Related to Ownership of the)
Non-energy Attributes of Renewable)
Energy.)
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COMMENTS
OF THE
CITIZENS' UTILITY BOARD OF OREGON

September 21, 2005



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I. Introduction

CUB is concerned with Staff's proposed allocation of Green Tags in utility contracts with Qualifying Facilities (QFs). Staff proposes to allocate all Green Tags from QFs to the developer under all circumstances. This inflexible approach ignores the reality that some renewable generation, such as wind, can now be competitive in the market, and that a utility's avoided cost based on gas generation, may also be its avoided cost based on wind generation. In unilaterally allocating all Green Tags to the developer, regardless of the cost of the facility in question, Staff's proposal exposes customers to possible abuse by developers seeking to exploit Oregon's rigid Green Tag allocation to increase their profit margin.

II. Argument

Green Tags haven't been around all that long as a concept, let alone as a commodity, and they certainly weren't around when PURPA was originally passed in 1978. Green Tags represent the non-energy attributes of renewable generation. Over their lifetime, Green Tags have also been seen as a proxy for the above-market cost of developing renewable facilities. Importantly, this last understanding presumes that there is an above-market cost to developing renewables.

A. Wind Is Now A Competitive Market Resource

CUB is not alone in celebrating renewable energy's, wind's in particular, coming of age as a mainstream power source. This does, however, make antiquated the vision of Green Tags as some kind of proxy for the above-market cost of renewable generation, and it also complicates the issue before us.

In today's market, wind generation does not necessarily have an above-market cost. The Energy Trust of Oregon has encountered renewable projects where it does not make a contribution because there was no above-market cost for the Trust to cover. This does not necessarily mean that wind should now be the resource that avoided cost is based on, but it does mean that some renewables are now running in the same cost league as fossil generation. Staff's presumption that avoided cost only covers the generation of brown power ignores the reality of wind's market maturation.

B. PacifiCorp's Proposal

PacifiCorp will, of course, speak for itself in its comments, but the general framework of the Company's proposal, as sketched out in yesterday's hearing, is useful

as a point of reference here. In allocating Green Tags from a QF between the developer and the utility customers, PacifiCorp suggests comparing the cost of the QF with the avoided cost paid by customers. As ascertaining the cost of the QF may be difficult or even illegal, the Company suggests using a proxy resource that is similar to the QF in question. Thus, if a small, biomass generator applied for a QF contract, the cost of a generic, similarly-situated biomass facility would be compared to the avoided cost that is to be paid to the developer for the power.

If the avoided cost does not compensate the developer for building the QF, then the Green Tags would remain with the developer. If, however, the utility's avoided costs completely compensates the developer for building the QF, then, as customers have paid the entire cost of the facility, they should be entitled to the entire output which includes the Green Tags.

Obviously, the reality of such a mechanism is far more complicated than the concept outlined above. The middle area, too, will need to be explored; what should happen if a utility's avoided cost covers 99% of the cost of the QF? The parties will need to come together to find reasonable ways to measure these variables. While PacifiCorp's proposal is not as cut and dry as Staff's proposed allocation to the developer under all circumstances, it does take into account the changing market for renewables.

C. Staff's Rigid Allocation Of Green Tags Is Vulnerable To Abuse

In this brave new world where a wind contract can price at market, we are concerned that wind developers could use the Staff's proposed allocation of Green Tags to increase their profits on the backs of customers. For example, as wind is a modular resource and can be developed in stages, a developer could install a cluster of generators

within the definition of QF, receive avoided cost from customers which covers the entire cost of the project, and then sell the Green Tags on top of that. The developer could then build another cluster, and so on. In the mean time, for the same cost, the utility could have built the same wind plant and secured those Green Tags for customers.

D. It Is Important To Protect The Original Intent Of QFs

We certainly appreciate that many QFs are barely economic, even with Green Tags, and CUB supports the development of alternative, distributed generation facilities. It seems reasonable that a facility whose costs are not covered by a utility's avoided cost should be able to keep the Green Tags in order to make the project economic. It is not our intent to claim for customers Green Tags from small, alternative, distributed generation sources whose market viability is not mature and that would not otherwise be economic, but are resources society values not only for what they provide to the electricity system, but also for what they can contribute to the development of alternative generation resources.

III. Recommendation

CUB has no proposal of its own to offer in these comments, but we think PacifiCorp's framework, as described above, could act as a starting point for the parties to determine a reasonable way to allocate QF Green Tags which takes into account the cost to develop the facility. We do feel, however, that Staff's proposal is unnecessarily rigid, and potentially harmful to customers as the cost of some renewable generation drops towards that of a gas turbine and a utility's avoided cost. We recommend the Commission not adopt such a rigid Green Tag allocation as that proposed by Staff, but instead invest the time and resources to design a methodology that both encourages the

development of otherwise infeasible QF projects, while also protecting customers from developers who would use QF status as a way to milk extra profit from a project. We agree that customers should not get more than they pay for, but we fear they may get less.

Respectfully Submitted,
September 21, 2005,

A handwritten signature in black ink, appearing to read "Lowrey R. Brown". The signature is written in a cursive style with a large initial "L".

Lowrey R. Brown
Utility Analyst