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VIA EMAIL

Chair Megan Decker
Commissioner Stephen Bloom
Commissioner Letha Tawney
PUC Staff
Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, Oregon 97308-1088

Re: February 26, 2019 Public Meeting Item No. 5 – Investigation into Interim PURPA Action (Docket No. UM 2001)

Dear Commissioners and Staff:

Portland General Electric Company (PGE) provides these comments in response to the Public Meeting Memorandum issued by Public Utility Commission of Oregon Staff on February 21, 2019. PGE appreciates the Commission's and Staff's continued efforts to implement interim relief to protect customers from unreasonable costs during the generic Public Utility Regulatory Policies Act (PURPA) investigation. However, Staff's revised proposal for interim relief continues to result in avoided cost prices that are well above market and ***almost $10/MWh above*** prices produced by PGE's proposed, Request for Proposals (RFP)-based approach. Therefore, PGE urges the Commission to grant PGE's request to use its RFP-based methodology. Alternatively, if the Commission declines to depart from its Integrated Resource Plan (IRP)-based methodology, PGE asks that it be allowed to update additional inputs, beyond those recommended by Staff.

I. Background

At the January 31, 2019, Special Public Meeting, the Commission expressed concern that its current avoided cost methodology may be producing above-market prices, and thereby harming utility customers. The Commissioners indicated their intent to address this problem in the upcoming generic PURPA investigation. However, to protect customers from harm pending the outcome of the generic investigation, the Commission directed Staff to propose interim revisions to the current avoided cost calculation methodology to ensure that avoided cost prices are aligned as closely as possible with the market. The Commission also asked Staff to consider interim measures related to interconnection processes to address concerns raised by qualifying facilities (QFs).

II. Staff's revised proposal fails to achieve accurate avoided cost prices for PGE and results in significant harm to customers.

Staff responded to the Commission's direction with several options for updating avoided costs in an expedited manner—two of which were RFP-based and one of which retained the current IRP-based methodology but incorporated certain updated data from the utilities' not-yet-filed IRPs. Staff recommended the "enhanced" IRP-based approach. Although Staff's proposal represents a laudable attempt to address the outdated pricing that results from the current IRP-based avoided cost calculation methodology, ***Staff's original proposal left PGE's avoided cost rates essentially unchanged and significantly above the cost of acquiring renewable resources in the market.*** For this reason, in its February 13 comments, PGE advocated that the Commission adopt an RFP-based approach utilizing the result of PGE's recently completed request for proposals. Alternatively, if the Commission preferred to adopt Staff's enhanced IRP-based methodology, PGE advocated that it be allowed to update two additional inputs—the capacity value for solar and the level of Production Tax Credit (PTC) that the Company anticipates could be available to the next resource it acquires.

After hearing from many parties at the February 14 Public Meeting, the Commission directed Staff to refine its recommendation, taking into account the comments received.[1] On February 21, Staff filed its revised recommendation, which continued to adhere to the enhanced IRP-based methodology.[2] Although Staff agreed with PGE that it is appropriate to update the capacity value for solar, Staff rejected PGE's proposal to update the PTC level to reflect the expected PTC eligibility of PGE's next renewable resource acquisition.[3] As a result, Staff's revised proposal decreases PGE's current levelized solar avoided cost rate only slightly from the current **$46.82/MWh** to **$45.50/MWh**.[4] This price is almost ***$10 above*** the **$36.11/MWh** rate that would result if the Commission instead adopted PGE's RFP-based approach.

Despite Staff's efforts, ***Staff's revised proposal perpetuates the significant disparity between PGE's avoided cost rates and the market***. This result is directly contrary to the

[1] Docket No. 2001, Order No. 19-052 at 1 (Feb. 19, 2019).
[2] Docket No. 2001, February 21, 2019 Staff Memo at 4 ("Staff Memo").
[3] Staff Memo at 5.
[4] Unless otherwise noted, all avoided cost numbers PGE provides in this letter are in 2018 dollars and reflect the levelized cost of a 15-year standard solar power purchase agreement (PPA) for a facility that comes online in 2020.

Commission's instruction to Staff to "align QF avoided costs with market trends,"[5] which was motivated by a desire to protect utility customers from harm pending the outcome of the generic investigation. If the Commission adheres to Staff's proposal rather than adopting the RFP-based approach, PGE's customers will pay ***approximately $40 million more*** per 100 MW of solar QF generation. Given the number of QF projects currently in the queue—and the additional projects expected to request contracts during the pendency of the generic investigation—PGE's customers will suffer significant harm.

Therefore, PGE urges the Commission to adopt PGE's proposed RFP-based approach.[6] As explained in greater detail in PGE's February 13 comments, the RFP-based approach is the most accurate option under consideration because it reflects renewable resources currently available in the market and results from competition among bidders. The RFP-based approach actually presents a *conservative* estimate of PGE's true avoided cost, because the market resources acquired through the RFP provide PGE's customers with significant benefits not provided by QFs, and these benefits are reflected in the RFP price. In addition, the Commission has long supported updating avoided cost prices based on the result of an RFP.[7]

Staff's concerns regarding an RFP-based approach do not warrant rejection of PGE's more accurate methodology. ***First***, Staff expressed concern that the RFP winning bid was selected based upon price and non-price factors, but non-price factors—such as transmission and interconnection request maturity and counterparty creditworthiness—likely *increase* a bid's price, because the bidders have made meaningful commitments and investments towards project development. Given that PGE's RFP-based prices are significantly lower than prices calculated using either the current, or Staff's enhanced IRP-based methodology, concerns regarding non-price factors should not prevent the Commission from adopting PGE's RFP-based proposal in the interim. ***Second***, Staff's concern regarding the confidential nature of the RFP bids also should not serve as an impediment to adopting the RFP-based approach, given PGE's willingness to make the detailed bid information and calculations underlying the proposed

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[5] Staff Memo at 2.

[6] Because the RFP winning bid combines PPA and ownership components, PGE's RFP-based approach simply begins with the $40 levelized cost of the RFP resources, and adjusts the price for the capacity contribution of each QF resource type using Commission-approved capacity values from PGE's 2016 IRP Update. PGE's approach does not encompass other changes to the RFP winning bid.

[7] *See, e.g.* Docket No. UM 316, Order No. 91-1381 at 2 (Oct. 18, 1991) ("The Commission directs that at the end of each bid solicitation the utility revise its avoided cost figures to reflect market information gained in the bid process."); Docket No. UM 1664, Order No. 13-378 (Oct. 17, 2013) (authorizing PGE to update its avoided cost rates based on the commitment to acquire the Carty Generating Station); OAR 860-029-0085(5)(a) ("Upon request or its own motion, the Commission may consider updates to avoided cost rates to reflect significant changes in circumstances including, but not limited to, the acquisition of a major block of resources or the completion of a competitive resource bid process.").

pricing available to the Commission, Staff, and stakeholders, subject to a modified protective order.

QF parties have commented that interim relief is unnecessary, because PGE could make a "significant change" filing to incorporate the results of the RFP and address its inflated avoided cost prices.[8] PGE agrees that it could have proposed its RFP-based approach in a significant change filing—and in fact PGE planned to do so before the Commission began investigating interim relief. However, regardless of whether the Commission considers the RFP-based approach in the present docket or in a separate, PGE-specific docket initiated by a significant change filing, the Commission should adopt PGE's proposed approach. PGE urges the Commission to approve an RFP-based price in the present docket to quickly and efficiently provide protection to customers and allow parties to focus their efforts on the generic investigation.

If the Commission declines to authorize the RFP-based approach, the Commission should, at a minimum, adopt Staff's proposal and also allow PGE to include the PTC at the 60% level. Staff declined to support updating the PTC level to correspond with a new resource acquisition date, because doing so would be inconsistent with PGE's 2016 IRP Update.[9] However, including at least a 60% PTC in PGE's avoided cost rates would be entirely consistent with Staff's recommendation to incorporate updated inputs from the utilities' as-yet-unfiled IRP analyses, to ensure prices are up-to-date. More importantly, if the Commission intends to adhere to its current IRP-based avoided cost methodology in the interim, then updating the PTC level is necessary to move avoided cost prices closer to market—which is the Commission's ultimate goal.

Finally, QF developers' protestations should not dissuade the Commission from adopting effective interim relief to protect customers. Developers have commented that any Commission action to lower prices or otherwise change the current methodology will upset developers' business expectations and that any proactive measures to better align prices with market would "kill PURPA in Oregon." The Commission should reject this hyperbole for three reasons. First, PGE's avoided cost prices are far above market, and so long as prices are not ***below*** market—a situation we are in no danger of creating—there is no reason to believe that development will slow, let alone halt altogether. Second, large solar and wind developers who do not participate or prevail in an RFP should not be entitled to expect PURPA contracts with significantly higher rates. And most importantly, developers' profit expectations must be balanced with the legal requirement that customers be held indifferent to the utility's purchase of QF generation.

[8] CREA REC NIPPC Comments at 6-7 (Feb. 12, 2019).
[9] Staff Memo at 5-6.

III. PGE generally supports Staff's revised interconnection proposal.

PGE appreciates Staff's proposal to schedule two workshops with stakeholders to discuss the information the utilities will make available to provide QFs with more insight into interconnection to the system. PGE has discussed this proposal with Staff and will actively participate in the workshops with the goals of providing the most relevant information and preserving the confidentiality necessary to protect the Company's critical infrastructure.

Sincerely,

Jordan R. Schoonover

Jordan R. Schoonover
Attorney for Portland General Electric Company