NIPPC FINAL PROPOSAL
UM 1276
Investigation Into Performance-Based Ratemaking Mechanisms
December 21, 2007

Type of Mechanism: Utility incentive

Incentive level: 10 percent adder, calculated on a post-tax basis[1], on Oregon's share of the total costs of an eligible power purchase agreement (PPA)

Basis: The 10 percent adder serves as a proxy for the risk mitigation value of PPAs, based on a similar value applied to conservation resources for determining cost-effectiveness.[2] The Commission explicitly recognized that the 10 percent discount accounts for the value of conservation in reducing risk and uncertainty.[3] However, in the case of an eligible PPA the utility would actually receive a 10% incentive in rates.

Eligibility Criteria:

1) Only new PPAs and renewals as of the date of the Commission's authorization of the incentive are eligible.
2) The PPA must be selected in a RFP conducted under the Commission's competitive bidding guidelines (Order No. 06-446).[4] The utility may fulfill its RFP requirement by using expedited or resource-specific RFPs.
3) The PPA must demonstrate that the seller is absorbing certain risks during project development (if the PPA is for a facility not yet completed), as well as explicit performance and operational risks that utility customers might otherwise be required to absorb if the utility were to own the asset. Risks that may be avoided and thus provide benefits include, by way of example but not limitation, construction cost risk, O&M cost risk, unit availability risk, technology risk, or other performance or cost risks.
4) Only contracts 25 MW or greater with a delivery term of three years or longer are eligible for the incentive.[5]

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[1] It is NIPPC's intent that the utility would actually receive a 10% incentive, which may require for ratemaking purposes that the incentive would be "grossed up" so that, after taxes, a 10% incentive is actually achieved by the utility.
[2] *See* OAR 860-030-0010(6).
[3] *See* Order No. 94-590 (UM 551) at 14. Other benefits of PPAs include resource diversity (e.g., type and term) and flexibility for resource planning and acquisition.
[4] The utility would not receive an incentive on turnkey projects.
[5] The Commission's competitive bidding guidelines do not preclude the utilities from specifying contract sizes and terms less than 100 MW and five years. These are simply the minimum resources that the Commission expects the utilities to acquire under its guidelines.

5) Only PPAs contractually associated with specific assets by unit are eligible. Contracts may allow for economic displacement and include replacement power provisions.
6) Contracts that utilities must enter into by law, including mandatory contracts under the Public Utility Regulatory Policies Act with Qualifying Facilities, are *not* eligible.

Other Elements of the Proposal:

1) The utility should not consider the cost of the incentive in determining the RFP initial or final short-lists. To allow for consideration of risk mitigation benefits of PPAs, at a minimum the utility should include in the final short-list evaluation all PPAs whose price does not exceed 110 percent of the forward price curve. The Commission will consider the incentive in any acknowledgment proceeding for the final RFP short-list.
2) The Independent Evaluator should provide a formal recommendation on the eligibility of the PPA for which the utility requests the incentive based on the IE's assessment that the seller would be absorbing a significant amount of risk under the proposed contract.[6]
3) Any utility engaged in one or more PPAs under the incentive must report annually on its financial metrics and provide documentation demonstrating discernible effects on any imputed debt calculations and credit ratings.
4) The Commission should review the incentive within three years from the date the incentive is first included in rates. Further, the Commission should specify an incentive cap that would trigger a review of the mechanism prior to that time.

[6] The utility may also provide other information to the Commission that it deems relevant to the issue of risk absorption and the eligibility of a PPA for the incentive.

~~STAFF~~ NIPPC FINAL PROPOSAL
UM 1276
Investigation Into Performance-Based Ratemaking Mechanisms
~~November 6~~December 21, 2007

Type of Mechanism: Utility incentive

Incentive level: 10 percent adder, calculated on a post-tax basis[1], on Oregon's share of the total costs of an eligible power purchase agreement (PPA)

Basis: ~~As in NIPPC's proposal, t~~The 10 percent adder serves as a proxy for the risk mitigation value of PPAs, based on a similar value applied to conservation resources for determining cost-effectiveness.[2] The Commission explicitly recognized that the 10 percent discount accounts for the value of conservation in reducing risk and uncertainty.[3] However, ~~as in PacifiCorp's proposal,~~ in the case of an eligible PPA the utility would actually receive a~~n~~ 10% incentive in rates.

Eligibility Criteria:

1) Only new PPAs and renewals as of the date of the Commission's authorization of the incentive are eligible.
2) The PPA must be selected in a RFP conducted under the Commission's competitive bidding guidelines (Order No. 06-446)~~, and the PPA must be in lieu of a utility ownership option~~.[4] The utility may fulfill its RFP requirement by using expedited or resource-specific RFPs.
3) The PPA must demonstrate that the seller is absorbing certain risks during project development (if the PPA is for a facility not yet completed), as well as explicit performance and operational risks that utility customers might otherwise be required to absorb if the utility were to own the asset. Risks that may be avoided and thus provide benefits include, by way of example but not limitation, construction cost risk, O&M cost risk, unit availability risk, technology risk, or other performance or cost risks. ~~*See* NIPPC's version of the CIM/pp proposal filed September 13, 2007, at 2.~~

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[2] *See* OAR 860-030-0010(6).
[3] *See* Order No. 94-590 (UM 551) at 14. Other benefits of PPAs include resource diversity (e.g., type and term) and flexibility for resource planning and acquisition.
[4] The utility would not receive an incentive on turnkey projects.

4) Only contracts 25 MW or greater with a delivery term of three years or longer are eligible.[5]
5) Only PPAs contractually associated with specific assets by unit are eligible. Contracts may allow for economic displacement and include replacement power provisions.
6) Contracts that utilities must enter into by law, including mandatory contracts under the Public Utility Regulatory Policies Act with Qualifying Facilities, are *not* eligible.

Other Elements of the Proposal:

1) The utility should not consider the incentive in determining the RFP initial or final short-lists. To allow for consideration of risk mitigation benefits of PPAs, at a *minimum* the utility should include in the final short-list evaluation all PPAs whose price does not exceed 110 percent of the forward price curve.~~[6]~~ The Commission will consider the incentive in any acknowledgment proceeding for the final RFP short-list.
2) The Independent Evaluator should provide a formal recommendation on the eligibility of the PPA for which the utility requests the incentive based on the I~~ndependent Evaluator~~'s assessment that the seller would be absorbing a significant amount of risk under the proposed contract.[7]
3) ~~The incentive should not be combined with NIPPC's proposed mechanism to discount PPAs in the competitive bidding process.~~
4) Any utility engaged in one or more PPAs under the incentive must report annually on its financial metrics and provide documentation demonstrating discernible effects on any imputed debt calculations and credit ratings.
5) The Commission should review the incentive within three years from the date the incentive is first included in rates. Further, the Commission should specify a cap that would trigger a review of the mechanism prior to that time.

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[5] The Commission's competitive bidding guidelines do not preclude the utilities from specifying contract sizes and terms less than 100 MW and five years. These are simply the minimum resources that the Commission expects the utilities to acquire under its guidelines.

[6] ~~This may not represent a change from current practice, where the utility seeks a sufficient number of bids, level of resources and resource diversity for the final short-list evaluation. In fact, the utility may need to go above this threshold (i.e., above 110 percent of the forward price curve). In establishing the threshold, the utility also should consider how any Benchmark Resources compare to the forward price curve.~~

[7] The utility may also provide other information to the Commission that it deems relevant to the issue of risk absorption and the eligibility of a PPA for the incentive.

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December 21, 2007

VIA Electronic Mail & U.S. Mail

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol St NE #215
PO Box 2148
Salem OR 97308-2148

Re: UM 1276; NIPPC's Final Proposal

Enclosed for filing is NIPPC's Final Incentive Proposal in this docket; hard copies will follow in the U.S. Mail. Also enclosed for the use of the parties and the Commission is a comparison document (with redlines and strikeouts) comparing the NIPPC version to the Staff version.

Please call me if you have any questions.

Very truly yours,

/s/ Susan K. Ackerman

Susan K. Ackerman
Attorney for NIPPC

Enclosures

Certificate of Service

I certify that I have this day served the foregoing NIPPC Final Incentive Proposal and the Staff-NIPPC Comparison proposal upon all parties of record in UM 1276 by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to all parties or attorneys of parties, on the service list compiled by the OPUC.

Dated this 21st day of December, 2007.

/s/ Susan K. Ackerman
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