

DEPARTMENT OF JUSTICE

GENERAL COUNSEL DIVISION

May 20, 2013

Attention: Filing Center
Public Utility Commission of Oregon
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Re:

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation into

Qualifying Facility Contracting and Pricing

PUC Docket No.: UM 1610

DOJ File No.: 330-030-GN0240-12

Enclosed for filing in the above-captioned matter are an original and five copies of the Oregon Department of Energy's Prehearing Memorandum.

Sincerely,

Renee M France

Senior Assistant Attorney General

Natural Resources Section

RMF:jrs/4247393

c: UM 1610 Service List (electronic copies only)

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1610

In the Matter of)
PUBLIC UTILITY COMMISSION OF OREGON,) OREGON DEPARTMENT OF ENERGY'S PRE-HEARING) MEMORANDUM
Staff Investigation into Qualifying Facility Contracting and Pricing)

INTRODUCTION

- 2 This Pre-hearing Memorandum is filed on behalf of the Oregon Department of
- 3 Energy (ODOE) pursuant to the direction from the Administrative Law Judge in the
- 4 above captioned matter. ODOE's testimony supports the Oregon goals for
- 5 qualifying small power production facilities and encourages the development of
- 6 qualifying facility (QF) projects in part by providing loans through the Small-scale
- 7 Energy Loan Program (Loan Program) and grants through the Renewable Energy
- 8 Development grant program. States are allowed a "wide degree of latitude" in

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¹ Oregon Revised Statute 758.515 states in part:

⁽²⁾ It is the goal of Oregon to:

⁽a) Promote the development of a diverse array of permanently sustainable energy resources using the public and private sectors to the highest degree possible; and

⁽b) Insure that rates for purchases by an electric utility from, and rates for sales to, a qualifying facility shall over the term of a contract be just and reasonable to the electric consumers of the electric utility, the qualifying facility and in the public interest.

⁽³⁾ It is, therefore, the policy of the State of Oregon to:

⁽a) Increase the marketability of electric energy produced by qualifying facilities located throughout the state for the benefit of Oregon's citizens; and

⁽b) Create a settled and uniform institutional climate for the qualifying facilities in Oregon.

- 1 implementing the Public Utility Regulatory Policies Act of 1978 (PURPA) provided
- 2 utilities are not obligated to pay generators more than the utilities' avoided costs.²
- This Memorandum summarizes ODOE's position on each issue that ODOE has
- 4 offered testimony and taken a position on. The information follows the format of the
- 5 issues list created for this proceeding. Issues that ODOE has taken no position on
- 6 are not included in this Memorandum.

7 ISSUE LIST

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1. Avoided Cost Price Calculation

- 1.A. What is the most appropriate methodology for calculating avoided cost prices?
 - 1.A.i. Should the Commission retain the current method based on the cost of the next avoidable resource identified in the company's current IRP, allow an "IRP" method-based on computerized grid modeling, or allow some other method?

For both standard and negotiated contracts, the Commission should retain the current method of calculating avoided costs based on wholesale power prices during the resource sufficiency period, and the cost of the next avoidable resource identified in the company's integrated resource plan (IRP) during the resource deficiency period. ODOE disagrees with PacifiCorp's proposal to change the avoided cost methodology for large QFs with negotiated contracts to the Partial Displacement Differential Revenue Requirement (PDDRR) modeling method. That method is complex, lacks transparency, is not necessarily more accurate and could deter QF development. See PAC/100, Dickman/7-9; ODOE/100, Carver/2-7.

ODOE agrees with PacifiCorp's proposal to calculate avoided cost prices during the resource sufficiency period using energy prices from a single market hub

² California Public Utilities Commission, 133 FERC ¶61,059, 61,255 (2010).

1 rather than blended market prices. However, the choice of the single market hub 2 should depend on the location of the QF on PacifiCorp's system in order to best 3 represent the costs that would actually be avoided by purchasing energy from the 4 QF. Mid-Columbia hub pricing should be used for QFs interconnecting to PacifiCorp 5 lines north of a dividing line, such as the Alvey transmission substation near Eugene 6 or the Grizzly substation near Redmond. California-Oregon Border hub pricing 7 should be used for QFs located south of that dividing line. See PAC/100, 8 Dickman/5-7; ODOE/100, Carver/8-9; ODOE/400, Carver/8-9. 9 In lieu of lowering the standard contract eligibility cap as proposed by the 10 electric companies, the Commission should adopt the following adjustments to the 11 avoided cost prices paid to QFs under both standard and negotiated contracts. 12 Such adjustments are a better way to address the utilities' concerns about the 13 current mismatch between the avoided cost prices being paid to QFs and the value 14 that QFs deliver to the companies' systems than eliminating the standard contract 15 option for many QFs. 16 First, avoided cost prices paid to a QF should be adjusted for integration costs 17 of the QF resource relative to the avoided resource as described in this 18 Memorandum under Issue 4.A. 19 Second, avoided cost prices paid to the QF should be adjusted for the capacity 20 value of the QF resource relative to the avoided resource. The capacity value of a 21 new resource should be based on its contribution to meeting the electric company's 22 reliability requirements during all hours of the year, not just during the highest peak

load hours as suggested by PacifiCorp. See PAC/300, Dickman/14; ODOE/100,

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1 Carver 7-8. The best tool for assessing the annual capacity contribution of each 2 resource type is an effective load carrying capability (ELCC) calculation across all 3 hours of the year. ODOE agrees with the arguments made by Renewable 4 Northwest Project (RNP) in support of this position. See RNP/200, Lindsay/2-6. It is 5 appropriate that capacity contribution values are addressed in the electric 6 companies' IRPs. The Commission should direct the electric companies to run a 7 comparative analysis of annual ELCC calculations for wind and solar resources and 8 compare the results to those of the peak load method for discussion in the next IRP 9 process. Rather than waiting for the next IRP, interim capacity values for wind and 10 solar should be applied now in order to improve the accuracy of the avoided cost 11 prices paid to QFs. The interim value for wind should be the capacity value used in 12 the last IRP. The interim value for solar should be a 30 percent capacity credit. See 13 ODOE/400, Carver 3. 14 Finally, ODOE agrees with OneEnergy's recommendation that avoided cost 15 prices paid to QFs up to 3 MW that are connected to the distribution system should 16 be adjusted to account for avoided transmission losses. A 3.9 percent adjustment 17 value should be used, unless an electric company demonstrates a different value for 18 transmission losses. See OneEnergy/100, Eddie/36-37, ODOE/400, Carver 5-6. 19 1.C. Should QFs seeking renewal of a standard contract during a utility's 20 sufficiency period be given an option to receive an avoided cost price for 21 energy delivered during the sufficiency period that is different than the 22 market price? 23 The Renewable Energy Coalition's proposal that renewal contracts should 24 receive resource deficiency prices for the entire new contract term has merit and 25 should be considered. PacifiCorp's 2011 IRP deferred the acquisition of new firm

1	resources based on the expectation of QF contract renewal. This is appropriate
2	planning strategy for all electric companies. The avoided cost prices paid to those
3	renewing QFs should reflect the deferral of new resources. See Coalition/100,
4	Lowe/21-22; ODOE/400, Carver/7.
5	2. Renewable Avoided Cost Price Calculation
6 7 8 9 10	2.A. Should there be different avoided cost prices for different renewable generation sources? (for example different avoided cost prices for intermittent vs. base load renewables; different avoided cost prices for different technologies, such as solar, wind, geothermal, hydro, and biomass.)
11	The adjustments to avoided cost prices based on the QF resource type are
12	summarized under Issue 1.A. and should be applied to both the standard and
13	renewable avoided cost calculations.
14	ODOE addresses integration charges for different renewable resources under
15	Issue 4.A.
16 17	2.B. How should environmental attributes be defined for purposes of PURPA transactions?
18	The definition of environmental attributes should be decided in phase two of
19	this docket in order to give parties time to develop a consensus position.
20	Environmental attributes should be defined in a manner consistent with Oregon's
21	Renewable Portfolio Standard statute and administrative rules, and with the Western
22	Renewable Energy Generation Information System (WREGIS) tracking system. As
23	explained by RNP, the WREGIS definition explicitly excludes from the Renewable
24	Energy Certificate the value associated with the capture and destruction of

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greenhouse gases. See ODOE/100, Carver/11-14; RNP/200, Lindsay/16-17.

1 2 3	2.C. Should the Commission amend OAR 860-022-0075, which specifies that the non-energy attributes of energy generated by the QF remain with the QF unless different treatment is specified by contract?
4	There is no need to amend OAR 860-022-0075. The rule is consistent with
5	Order No. 11-505, which provides clear direction as to when non-energy attributes
6	are to be transferred from a QF to the electric company purchasing the energy. See
7	ODOE/100, Carver/14.
8	3. Schedule for Avoided Cost Price Updates
9 10	3.A. Should the Commission revise the current schedule of updates at least every two years and within 30 days of each IRP acknowledgement?
11	To improve accuracy of avoided costs to protect ratepayers, the frequency of
12	the regularly scheduled avoided cost filings should be increased to annually. And to
13	improve price certainty for QF developers to help meet state and federal PURPA
14	goals, those filings should occur on a date certain each year. ODOE takes no
15	position on the specific date. The regular filing process should include an
16	evidentiary process of fixed duration to allow for stakeholder engagement.
17	Additionally, avoided cost updates should continue to be filed within 30 days of each
18	IRP acknowledgement order. The date of resource deficiency should be updated
19	only if the Commission has issued an order updating the date, such as in an IRP
20	acknowledgement order. See ODOE/300, Brockman/3.
21 22 23	3.D. To what extent (if any) can data from IRPs that are in late stages of review and whose acknowledgement is pending be factored into the calculation of avoided cost prices?
24	If, by chance, the dates for the utility's regular avoided cost update and its IRP
25	acknowledgement fall close to each other, the Commission should issue an order to

1	skip the regularly scheduled avoided cost filing and rely on the IRP-triggered
2	avoided cost filing, as it did in Order No. 07-428.
3 4 5	3.E. Are there circumstances under which the Renewable Portfolio Implementation Plan should be used in lieu of the acknowledged IRP for purposes of determining renewable resource sufficiency?
6	Generally, the IRP acknowledgement order is the best tool for determining the
7	dates of resource sufficiency and deficiency. Still, the Commission should retain
8	discretion to update the renewable resource deficiency date in its acknowledgement
9	order for the Renewable Portfolio Standard implementation plan based on the facts
10	at the time. Such an order updating the renewable resource deficiency date would
11	trigger an update to the renewable avoided cost prices. See ODOE/300,
12	Brockman/4-5.
13	4. Price Adjustments for Specific QF Characteristics
14 15 16 17	4.A. Should the costs associated with integration of intermittent resources (both avoided and incurred) be included in the calculation of avoided cost prices or otherwise be accounted for in the standard contract? If so, what is the appropriate methodology?
18	Avoided cost prices paid to QFs should be adjusted for the relative integration
19	cost of the QF resource versus the avoided resource, for both the standard and
20	renewable avoided cost options. In some cases, there would be no adjustment
21	because the integration costs of the QF and the avoided resource are equal. The
22	electric company's acknowledged IRP should be the source of the wind integration
23	costs. One value for wind integration (\$ per MWh) should be specified in each

electric company's published avoided cost schedule. The values will likely vary

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among electric companies.

1	No resources other than wind should incur integration charges at this time. In
2	particular, solar QFs should not be charged for integration until the electric
3	companies have demonstrated there are material integration costs for solar
4	generation. The impact of solar QFs on net load variability is negligible at this time.
5	See ODOE/400, Carver/4-5.
6	For standard contracts (10 MW and under) using the renewable avoided cost:
7	a) wind QFs should incur integration charges during the renewable resource
8	sufficiency period (because the electric company is making market purchases and
9	therefore not avoiding integration charges during that period), but not during the
10	renewable resource deficiency period if the avoided resource is wind; and
11	b) solar and other renewable resource QFs should not incur integration charges
12	during the renewable resource sufficiency period, and should receive an integration
13	credit during the renewable resource deficiency period. See ODOE/100, Carver/10.
14 15	4.C. How should the seven factors of 18 CFR 292.304(e)(2) be taken into account?
16	For renewable resource QFs over 10 MW, the prices paid should be adjusted
17	for integration costs and the remainder of the Federal Energy Regulatory
18	Commission factors based on the characteristics of the renewable resource facility.
19	The capacity credit for variable renewable resources should be based on an annual
20	ELCC analysis. See ODOE/100, Carver/11.
21	5. Eligibility Issues
22	5.A. Should the Commission change the 10 MW cap for the standard contract?
23	The 10 MW eligibility cap for the standard contract should not be changed.
24	ODOE opposes the electric companies' suggestions to lower the eligibility cap. The

1	companies' concerns should instead be addressed by adjusting the avoided cost
2	prices to more accurately reflect the true costs and benefits of adding QFs to their
3	systems as discussed in Issue 1.A. That approach preserves the balance the
4	Commission sought in Oregon No. 05-584 to encourage QF development while
5	protecting ratepayers. See ODOE/500, Elliott/1-2.
6	Reducing the eligibility cap for standard contracts from 10 MW would almost
7	certainly reduce the number of QF projects developed in Oregon. Not having a
8	standard contract would disrupt the entire project development cycle for small QFs
9	because lenders will not finance a project until the project revenues and other key
10	contract terms are defined in the power purchase agreement. QF developers,
11	regardless of sophistication, would incur significant legal fees to negotiate contracts
12	causing some projects to be financially unviable and deterring some developers
13	altogether. See ODOE/200, Elliott/2-6; ODOE/500, Elliott/2-4.
14	All of the QF loan applications received by the Loan Program since
15	Commission Order No. 05-584 increased the standard contract eligibility cap to 10
16	MW were for projects under 10 MW. Half of those applications were for projects
17	between 3 MW and 10 MW, and ODOE expects future hydro projects to be in the
18	same size range. See ODOE/500, Elliott/3,5-6.
19 20	5.D. Can a QF receive Oregon's Renewable avoided cost price if the QF owner will sell the RECs in another state?
21	Yes. Consistent with Order No. 11-505, a QF receiving the renewable resource
22	avoided cost rate owns the RECs generated during the renewable resource
23	sufficiency period, when the QF receives the market price for the energy. During
24	that renewable resource sufficiency period, the QF's options to sell its RECs,

- 1 whether in-state or out-of-state, should not be limited. During the renewable
- 2 resource deficiency period, in which the QF receives the renewable resource
- 3 avoided cost rate, the QF transfers all of the RECs to the electric company and does
- 4 not have the option to sell those RECs to any other party, either in-state or out-of-
- 5 state. See ODOE/300, Brockman/5.

6. Contracting Issues

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6.E. How should contracts address mechanical availability?

Contract termination should not be the penalty for small QFs that occasionally miss mechanical availability requirements, as this would make small QF projects non-financeable. Instead, QFs that miss availability requirements should incur financial penalties based on actual harm to the electric company. Contracts should require notification and opportunity to remedy before such financial penalties are imposed. Mechanical availability should be measured on an annual basis. All three electric companies should adopt similar requirements. ODOE does not take a position on specific mechanical guarantee percentages and number of allowable hours for scheduled maintenance. See ODOE/200, Elliott 6-9; ODOE/500, Elliott/7-8.

6.I. What is the appropriate contract term? What is the appropriate duration for the fixed price portion of the contract?

The current standard contract length of up to 20 years with fixed prices during the first 15 years should be maintained. Shorter contract terms could result in small .

QF projects becoming non-financeable. See ODOE/200, Elliott/10-11.

Additionally, ODOE agrees with OneEnergy's recommendation that QFs under

3 MW that are connected directly to the electric company's distribution system may

1	receive fixed prices for the full contract term, rather than just the first 15 years.
2	However, unlike OneEnergy, ODOE recommends that these projects also receive a
3	maximum contract term of 20 years. See ODOE/400, Carver/8; OneEnergy/100,
4	Eddie/37-39.
5	CONCLUSION
6	ODOE appreciates the opportunity to participate in this investigation and
7	provide this Pre-hearing Memorandum.
8	Dated this 20 th day of May, 2013
9	
10	Respectfully submitted,
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CERTIFICATE OF SERVICE

I hearby certify that on May 20, 2013, I served the foregoing Oregon Department of Energy's

Prehearing Memorandum in Docket UM 1610 upon all parties of record in this proceeding by

Oregon Dockets

electronic mail only as all parties have waived paper service.

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