BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1734

In the Matter of PACIFICORP, dba PACIFIC POWER Application to Reduce the Qualifying Facility Contract Term and Lower the Qualifying Facility Standard Contract Eligibility Cap.	STAFF PREHEARING MEMORANDUM

I. Introduction.

PacifiCorp asks the Commission to modify two of its policies relating to the implementation of the Public Utility Regulatory Act (PURPA) as they apply to PacifiCorp. PacifiCorp asks the Commission to lower the eligibility cap for standard contracts ("Eligibility Cap") for solar and wind qualifying facilities (QFs) to 100 kW and to shorten the term of all PURPA contracts to three years. Staff recommends that the Commission lower the Eligibility Cap for PacifiCorp standard contracts with wind and solar QFs to somewhere between two and four MWs and reject PacifiCorp's request to shorten PURPA contracts to three years.

II. Analysis.

A. Staff recommends that the Commission reduce the Eligibility Cap for standard contracts between solar or wind QFs and PacifiCorp.

1. Previous Commission decisions regarding the Eligibility Cap.

Federal Energy Regulatory Commission (FERC) rules implementing PURPA require utilities to offer "standard" avoided cost rates to QFs with a nameplate capacity of 100 kW or less, and allow states to establish a higher Eligibility Cap for standard avoided cost prices.[1] In its initial orders and rules implementing PURPA, the OPUC did not impose an Eligibility Cap for standard rates that differed from the federally-required 100 kW, but did so in 1991.[2]

[1] 18 C.F.R. § 292.304(c)(1)-(2).

[2] See Order Nos. 81-319, 85-742.

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In 1991, the Commission adopted guidelines for the use of competitive bids to acquire new resources.[3] The Commission noted that QFs could secure a contract with a utility through a competitive bid or under PURPA.[4] The Commission decided that the Eligibility Cap for standard rates should be increased to one MW, stating that "[w]ithout this change, the transaction costs associated with participation in competitive bidding could disadvantage QFs."[5]

In 2005, the Commission increased the Eligibility Cap for standard rates and contracting terms to 10 MW.[6] The Commission noted that it "continue[d] to adhere to the policy, as articulated in Order No. 91-1605, that standard contract rates, terms and conditions are intended to be used as a means to remove transactions costs associated with QF contract negotiation, when such costs act as a market barrier to QF development."[7] The Commission also concluded that "market barriers other than transaction costs also pose obstacles to a QF's negotiation of a power purchase contract[,]" identifying asymmetric information and an unlevel playing field as such barriers.[8]

Finally, the Commission explained that the need to reduce market barriers must be balanced with the Commission's interest in ensuring that a utility pays a QF no more than its avoided costs for the purchase of energy.[9] The Commission noted that standard contracts do not take into account individual QF cost characteristics that result in utility cost savings that differ from the standard avoided cost rates.[10] And, the Commission noted that the risk that future costs

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[3] Order No. 91-1383 (1991 WL 501921).

[4] *Id.* (1991 WL 501921 at p 10).

[5] *Id.*

[6] Order No. 05-584 at 15 (increasing Eligibility Cap for standard contracts), and 12 (explaining that the term "standard contract" describes[s] a standard set of rates, terms and condition that govern a utility's purchase of electrical power from QFs at avoided cost.").

[7] *Id* at 16.

[8] *Id.*

[9] *Id.*

[10] *Id.*

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may differ from the fixed prices in a PURPA contract is "greater" for a large QF than for a small one.[11]

The Commission selected 10 MW as the Eligibility Cap, noting its reliance on Staff's testimony regarding the extent that market barriers prevented successful negotiation of a contract and Oregon Department of Energy (ODOE) testimony indicating that 10 MW represented a point at which the costs of negotiation become a reasonable fraction of total investment costs.[12] The Commission noted that market barriers exist for QFs with facilities larger than 10 MW, but that it would address these market barriers with improved negotiation parameters and guidelines and greater transparency in the negotiation process.[13]

In 2014, the Commission considered in Phase I of the ongoing Investigation into Qualifying Facility Standard Pricing and Contracting (Docket No. UM 1610) whether the 10 MW Eligibility Cap should be changed.[14] The Commission declined to do so.

2. Staff recommends that the Commission lower the Eligibility Cap for contracts between PacifiCorp and wind and solar QFs to somewhere between two and four MWs.

Staff recommends that the Commission reduce the Eligibility Cap for standard contracts for wind and solar QFs contracting with PacifiCorp. Both solar and wind QF developers have used the Eligibility Cap to obtain standard rates and contracting terms for large QFs by disaggregating their projects into multiple projects at or just under the Eligibility Cap. For example, within a one week period in June 2015, one developer executed standard contracts with PacifiCorp for seven 10 MW solar facilities and one 8 MW solar facility.[15] Another developer executed five standard contracts for 36.5 MW of solar on the same day in May 2015, and

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[11] *Id.*

[12] *Id.* at 17.

[13] *Id.*

[14] Order No. 14-058 at 5-8.

[15] Staff/100, Andrus17.

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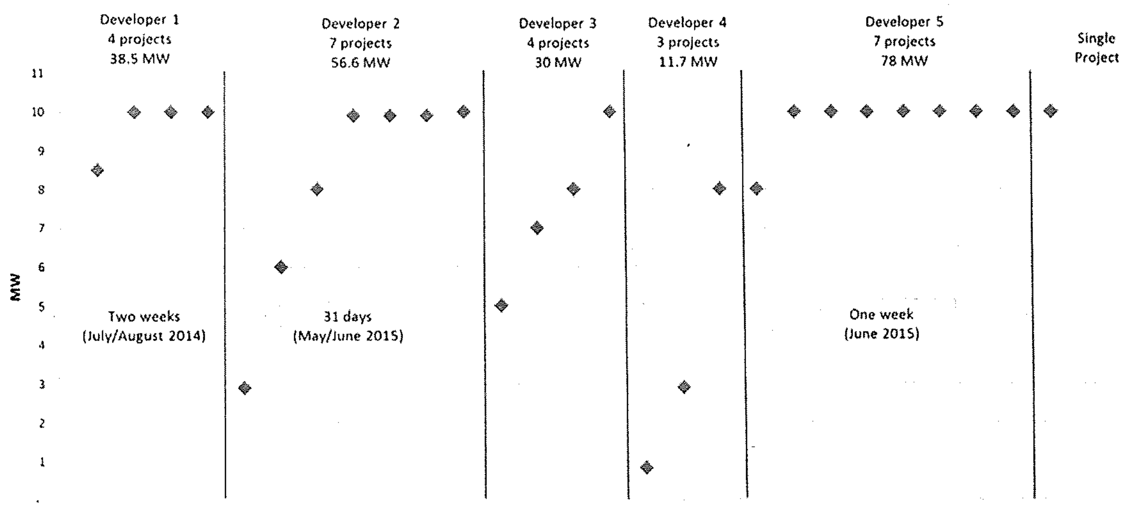
executed another two contracts for 19.9 MW one month later.[16] And, three other developers have each executed multiple standard contracts within the last 18 months for multiple facilities that are each below the10 MW cap.[17]

Figure 1. below graphically depicts the solar contracts discussed above, showing the number of projects and their respective MW capacity, grouped by developer. For those with multiple projects at or very near the eligibility cap (9.9 MW), Staff includes the time window within which the standard contracts were executed.



Similarly, between 2008 and 2014, a single developer executed standard contracts with PacifiCorp for eight wind QFs at and below the 10 MW Eligibility Cap and another executed two standard contracts for two wind QFs, one sized at 9.9 MW and the other at 6.5 MW.[18] Figure 2. below is a graphic representation of this contracting activity as well as of three other standard contracts for wind QFs executed by three different developers.

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[16] Staff/100, Andrus17.

[17] Staff/100, Andrus/18.

[18] Staff/200, Andrus/5. Three other developers each developed a single wind QF below the 10 MW Eligibility Cap between 2008 and 2014.

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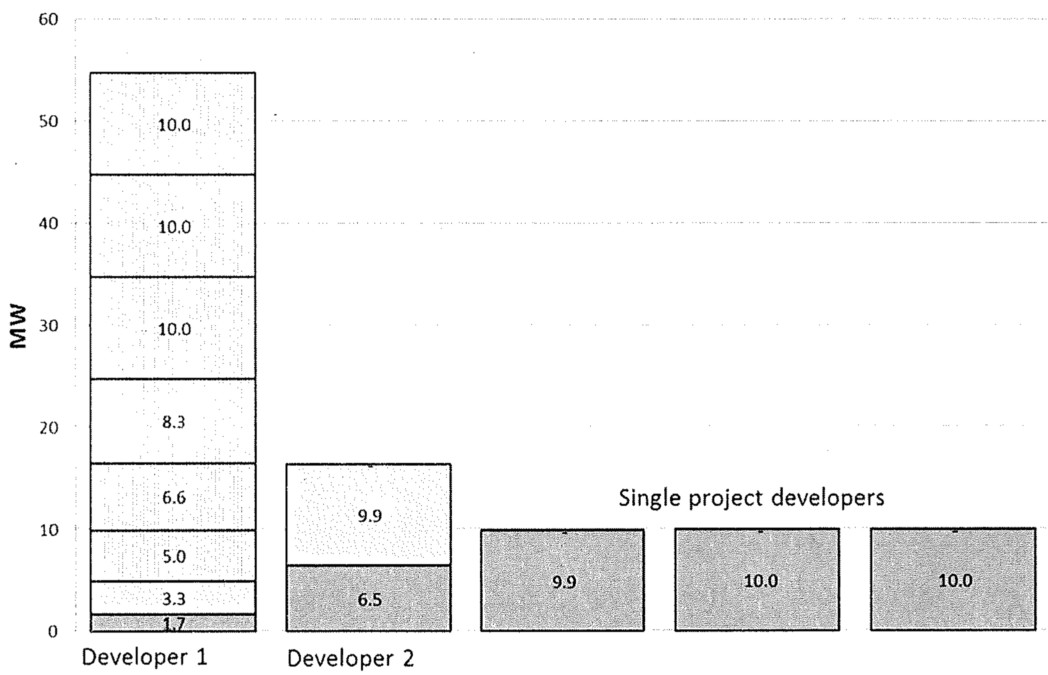

Staff recommends lowering the Eligibility Cap for solar and wind QFs to a level that may discourage disaggregation but not so low as to exclude from the market the QF developers that may not have the resources to negotiate a long-term contract with the utility.[19] To accomplish these purposes, Staff recommends the Commission establish an Eligibility Cap somewhere between two and four MWs.[20] Staff recommends an Eligibility Cap of at least 2 MW so developers of a single-turbine wind QF are eligible for a standard contract. The majority of wind turbines currently operating in the U.S. are between 1.8 MW and 2.3 MW.[21] Staff recommends an Eligibility Cap no higher than 4 MW to discourage disaggregation.

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[19] Staff/200, Andrus/7.

[20] Staff/200, Andrus/7.

[21] See Staff/200, Andrus/9.

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Under the current Eligibility Cap, a developer could disaggregate a 40 MW project into four different 10 MW projects and obtain standard prices and contracting terms for the entire 40 MW. Under Staff's recommendation, a developer of 40 MW of solar would have to execute at least ten and as many as 20 standard contracts to avoid negotiating a contract with non-standard rates. Staff believes the cost associated with this many standard contracts could be prohibitive, making disaggregation less likely.

Staff's recommendation applies to wind and solar QFs that execute contracts with PacifiCorp because of the relative ease with which these types of resources can be disaggregated. Staff recommends leaving the Eligibility Cap at 10 MW for all other QF types.

3. Staff is not persuaded by testimony of intervenors[22] that oppose lowering the Eligibility Cap.

Obsidian Renewables, LLC, Cypress Creek Renewables, LLC, and the Renewable Energy Coalition oppose lowering the Eligibility Cap for standard contracts between solar and wind QFs and PacifiCorp because PacifiCorp makes it very difficult, if not impossible, to negotiate a non-standard contract.[23] CREA opposes lowering the cap for the reasons it articulated in Docket No. UM 1610; small developers cannot obtain funding until they have an executed power purchase agreement and cannot afford to negotiate a non-standard contract prior to obtaining financing and delays associated with negotiating a contract create significant risk for the developer.[24]

ODOE does not oppose lowering the Eligibility Cap for solar QFs, but does oppose lowering the Eligibility Cap for wind QFs. ODOE testifies that the concern regarding disaggregation is not as great for wind QFs because multiple wind QF sites owned by a single

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[22] Obsidian Renewables, LLC, Cypress Creek, LLC, CREA and the Renewable Energy Coalition oppose lowering the Eligibility Cap. The other intervenors in this docket, Sierra Club and the City of Portland, did not take a position on the Eligibility Cap in testimony.

[23] Obsidian and Cypress Creek/200 and Brown/12-13; Coalition/300, Lowe/3.

[24] CREA/100, Skeahan/4.

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owner cannot be sited within five miles of each other.[25] ODOE also testifies that the economies of scale are such that negotiating a contract for a 10 MW wind QF is a feasible option, whereas negotiating a contract for a smaller wind QF may not be. [26]

The concerns identified by CREA prompted Staff to support a 10 MW Eligibility Cap for all PURPA contracts in Phase I of UM 1610. However, since filing testimony in that case, Staff has observed that the 10 MW cap is not being used by developers of solar QFs to eliminate barriers to entry, but to obtain standard contract prices and terms for large projects disaggregated into multiple projects that are sized below the 10 MW Eligibility Cap. The same is true of two developers of wind QFs between 2008 and 2014.

The Commission did not intend to provide the protection of the Eligibility Cap to QFs larger than 10 MW. The Commission recognizes that there is a balance between the need for avoided cost prices that reflect the characteristics of the individual QF and facilitating small QFs' entry into the market.[27] Staff recommends lowering the Eligibility Cap because of the potential harm to ratepayers from paying large (disaggregated QFs) standard avoided cost prices that do not take into account the individual characteristics of the QFs. Although there will likely be a few QF developers that will be disadvantaged by a reduced Eligibility Cap, Staff believes that this potential harm to a few small developers is outweighed by the protection to ratepayers obtained from lowering the cap.

With respect to the concerns voiced by REC, Obsidian, and Cypress Creek that it is very difficult, if not impossible, to negotiate a non-standard contract with PacifiCorp, Staff believes the correct remedy for this issue is the Commission's dispute resolution process for non-standard contracts, or a complaint filed under ORS 756.500.

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[25] ODOE/200, Broad and Carver/3-4.

[26] ODOE/200, Broad and Carver/3-4.

[27] Order No. 05-584 at 15.

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B. Staff recommends the Commission reject PacifiCorp's request to shorten the term of all PURPA contracts to three years.

1. Previous Commission orders regarding length of PURPA contracts.

In 1984, the Commission ordered utilities to offer standard contracts with terms of up to 20 years to QFs with a nameplate capacity of 100 kW and less.[28] With respect to non-standard contract terms, the Commission noted that 70 percent of the QFs that had entered into PURPA contracts with PacifiCorp had terms of 25-35 years.[29] The Commission ordered utilities to file avoided cost prices for a 35-year period, concluding that "[t]hirty-five years of avoided cost data is needed to "promote the development of a diverse array of permanently sustainable energy resources" and "create a settled and uniform institutional climate for the qualifying facilities in Oregon."[30]

In 1991, the OPUC decided that the term of a non-standard contract should be the result of negotiation between the QF and utility, whether the contract is obtained by competitive bid or implementation of PURPA.[31] However, the Commission noted that "the further into the future [avoided cost] projections are made, the greater the risk the projections will not accurately represent actual conditions at the end of the projection period."[32] To address this risk, the Commission adopted three criteria that the utility and QF should use to determine whether a contract longer than 20 years is warranted:

1. Whether there is a high probability that the resource will be operable well beyond the 20 years.

2. Whether the developer could obtain financing for the resource for contract lengths of less than 20 years; and

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[28] Order No. 84-720 (1984 WL 1022595).

[29] *Id.*, *quoting* ORS 758.515(2)(a) and (3)(b).

[30] *Id.*

[31] Order No. 91-1383 at 15.

[32] *Id.*

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3. Whether the resource's physical and cost characteristics make contract terms of more than 20 years advantageous for all parties.[33]

In 1996, "as the energy industry was undergoing tremendous change and evolving towards more competitive markets[,]" the Commission approved Portland General Electric Company's (PGE) request to shorten the terms of PURPA contracts to five years.[34] Staff supported PGE's request noting that it was difficult to justify contracts more than five years given the continued movement toward a competitive market place for electricity and the prevalence of wholesale transactions for terms of five years or less.[35]

In 2005, the Commission increased the term of the standard contract from five years to 20 years, but limited the fixed-price portion of the contract to 15 years.[36] The Commission explained that a 20-year term with fixed prices for 15 years balanced two goals, the need to accurately price power in the later years of a contract and the need to facilitate financing for a QF project: "[O]ur fundamental objective is to establish a maximum standard contract term that enables eligible QFs to obtain adequate financing but limits the divergence of standard contract rates from actual avoided costs."[37] In 2007, the Commission ordered that QFs negotiating non-standard contracts were entitled to select a contract term of up to 20 years and were not precluded from negotiating a longer term."[38] In Phase I of the Investigation into Qualifying Facility Contracting and Pricing, the Commission declined to change the 20-year contract term or the 15-year fixed price portion of the contract.[39]

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[33] *Id.*

[34] See Order No. 05-584 at 10, *citing* Staff Public Meeting Memorandum describing circumstances leading to PGE application in 1996.

[35] Attachment A (Staff Public Meeting Memorandum re: PGE Advice No. 96-21).

[36] Order No. 05-584 at 10.

[37] *Id.* at 19.

[38] Order No. 07-360 at 11.

[39] Order No. 14-058.

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2. The circumstances do not support a change in the term of PURPA contracts.

Currently, QFs entering into both standard and non-standard contracts may unilaterally select a contract period of up to 20 years with a fixed-price term of no more than 15 years.[40] Evidence presented in this proceeding reflects that shortening the maximum term of a PURPA contract to three years would likely have a detrimental effect on the ability of QFs to obtain financing at reasonable terms. For example, a witness for ODOE, the project development officer with the Small-scale Energy Loan Program (SELP), testified that financiers prefer projects that have a power purchase agreement that spans the life of the loan as it eliminates down-side pricing risk and makes underwriting the loan easier.[41] He also testified that "three year QF standard contracts introduce too much price risk into an essentially closed market for the risk tolerance of most lenders, in my experience."[42]

Similarly, a witness for the Community Renewable Energy Association (CREA) testified that three-year contracts would make the financing of small projects impossible because (1) lenders require a revenue stream from the project with sufficient certainty to pay the senior lien debt associated with project financing as well as sufficient operating and maintenance costs over the life of the indebtedness; (2) the term of the loan must be sufficiently long to keep the principle and interest payments low enough to make the project financially feasible; and (3) prudent financial practice would provide for the term of the debt to be comparable to the useful life of the project.[43]

PacifiCorp dismisses the concern that shortening the maximum term of the PURPA contract will inhibit financing for QFs, explaining that "[t]here is no requirement [in PURPA or

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[40] Order Nos. 05-584 and Order No. 07-360.

[41] ODOE/100, Hobbs/2.

[42] ODOE/100, Hobbs/2 (emphasis omitted).

[43] CREA/100, Skeahan/6. *See also* Sierra Club/100, McGuire/13 (shortening contract term to three years "would almost certainly prohibit renewable QF developers from obtaining financing.").

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FERC regulations] to ensure a QF can obtain financing. The obligation is must-take, not "must ensure economic viability."[44] PacifiCorp's disinterest in the economic viability of QFs ignores the Commission's long-standing attempt to implement PURPA by balancing ratepayer protections and QF development.

In the 1981 order adopting rules to implement PURPA, the Commissioner noted the intent of the rules was to "provide maximum economic incentives for development of qualifying facilities while insuring that the costs of such development do not adversely impact utility ratepayers who ultimately pay these costs."[45] The Commission reiterated this intent in its 2005 order addressing PURPA implementation, stating "our intent with regard to implementation of PURPA remains the same as first articulated in 1981. We seek to provide maximum incentives for the development of QFs of all sizes, while ensuring that ratepayers remain indifferent to QF power by having utilities pay no more than their avoided costs."[46] And, the Commission repeated this principle in its 2014 order resolving several issues in Phase I of Docket No. UM 1610.[47]

Allowing QFs to unilaterally select a fixed-price contract term of up to 15 years is more consistent with the Commission's stated principle of providing maximum incentives for development of QFs (while having ratepayers pay no more than the utilities' avoided costs) than a maximum term of three years would be. While a term of three years may limit the risk that the utilities' actual avoided costs will vary from the contracted-to avoided cost prices, the shorter term would almost certainly inhibit rather than incent QF development.

In sum, the Commission has previously determined that allowing QFs to select a 20-year contract with a fixed-price term of 15 years strikes an appropriate balance between the need to

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[44] PAC/200, Griswold/19.

[45] Order No. 81-319 at 3.

[46] Order No. 05-584 at 11.

[47] Order No. 14-058 at 3.

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facilitate QF financing and the need to ensure ratepayer indifference.[48] Testimony in this proceeding reflects that a longer-term contract is still needed to facilitate affordable financing for QFs. And, no persuasive evidence shows that the risk avoided cost prices will diverge from the utilities' actual avoided costs over the term of the contract has changed so substantially that it must be re-balanced with shorter contract terms.

Two other factors militate against granting PacifiCorp's request to shorten the maximum term of PURPA contracts. First, reducing the Eligibility Cap for standard contracts from 10 MW to no more than 4 MW will help to limit the potential harm from actual avoided costs diverging from avoided cost prices because the avoided cost prices for QFs above the Eligibility Cap will be based on the characteristics of the contracting QF rather than a proxy resource. Second, if PURPA contracts are no more than three years, it is unlikely QFs will have the opportunity to receive deficiency-period prices because deficiency-period prices for any PURPA contract generally will not start within five or so years after the date of contract execution.[49]

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[48] Order No. 05-584 at 11.

[49] Staff/100, Andrus/10.

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III. Conclusion.

Staff recommends that the Commission lower the Eligibility Cap for PacifiCorp standard contracts with wind and solar QFs to somewhere between two and four megawatts and deny PacifiCorp's request to shorten the term of all PURPA contracts to three years.

DATED this 5th of January, 2015.

Respectfully submitted,

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ITEM NO. 6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: DECEMBER 17, 1996

REGULAR AGENDA X CONSENT AGENDA _ EFFECTIVE DATE DEC 18, 1996

DATE: December 9, 1996 WJW

TO: Mike Kane mk through Bill Warren and Lee Sparling LS

FROM: Bill McNamee WM

SUBJECT: Portland General Electric Company, Advice No. 96-21
Avoided Cost Filing

SUMMARY RECOMMENDATION

I recommend the Commission allow Portland General Electric Company's revised Schedule No. 201 and the accompanying avoided cost study (*Advice No. 96-21*) to go into effect on December 18, 1996.

DISCUSSION

On October 30, 1996, Portland General Electric Company (PGE) filed a revised Schedule 201 (*Small Power Production*) and its accompanying avoided cost study with the OPUC. PGE's proposed avoided cost estimates are based upon the data and assumptions included in its most recent Least-Cost Plan (LCP), which was acknowledged in Order No. 96-224 (*Issued August 26, 1996*). This avoided cost filing is intended to replace PGE's currently effective avoided costs, which were approved by the Commission at its December 19, 1995, public meeting.

"Avoided cost" is defined by Oregon Statute as:

> "... the incremental cost to an electric utility of electric energy or energy and capacity that the utility would generate itself or purchase from another source but for the purchase from a qualifying facility." (ORS 758.505(1))

The values included in a utility's avoided cost filing are intended to provide a basis for contract price negotiation between the utility and PURPA qualifying facilities. As is indicated in PGE's avoided cost filing, OPUC Administrative Rules require that final contract prices should consider, to the extent practical, such factors as reliability, dispatchability, and other relevant power supply characteristics (see OAR Chapter 860, Division 29).

PGE's filing presents its estimates of avoided costs which, as mentioned, are the basis for negotiated payments for purchases from qualifying cogenerators and small power producers. Payments to qualifying facilities (QFs) of one megawatt or less are specified in PGE's Schedule 201. Prices for purchases from larger QFs depend on project characteristics and are established by negotiation between the contracting parties. Avoided cost estimates are also used, with some modification, to compute conservation cost-effectiveness levels and to assist in the evaluation of special contracts and other power sale agreements.

Historically, utility avoided cost estimates have consisted of a mixture of avoided energy costs related to existing plants and market purchases, as well as the predicted costs of long-term capacity purchases and potential new resource additions. PGE's proposed filing differs in that its avoided cost values represent an estimate of the wholesale market price of energy delivered to PGE's system. The filing lists expected market prices for a period of 20 years. The avoided cost values were calculated by PGE's MONET (*Multiple Area and Network Energy Transaction*) model.

The MONET model considers all generating resources and loads within the WSCC region[1] and calculates a marginal cost of energy for each of eight areas, of which PGE's service territory is one area. Model inputs include hydro conditions, gas prices, and load growth. Transmission constraints are included in the model formulation. As regional load growth requires new resource additions, the model will acquire resources (*as WSCC resource additions, not PGE specific resources*) and reflect both the variable and fixed costs of any resource additions in the model's prediction of long-term market prices.

PGE's proposed filing also differs from past filings in that language in the filing explicitly states that QF contracts for firm power deliveries will be established for five year periods. In support of this position, PGE states that in today's energy marketplace the majority of long term power purchase contracts are negotiated for periods of three to five years. PGE believes that QF contracts for periods of more than five years pose significant risk to the Company and its ratepayers.

PGE estimates a 1997 fuel cost of $1.28 per MMBTU at the burner tip *(i.e., includes both commodity and transportation)*, which is assumed to escalate at an average annual real rate of 1.86 percent. For potential QF contract negotiations, however, actual avoided costs will be based on a published gas price index such as <u>Inside FERC Gas Market</u>, <u>Gas Daily</u>, or other index indicative of the market price for natural gas in the Pacific Northwest. The specific index selected will be determined at the time of QF contract negotiations.

PGE divides its avoided cost estimates into on-peak and off-peak periods. On-peak hours are from 6 a.m. to 10 p.m., Monday through Saturday. Off-peak hours are 10 p.m. to 6 a.m. and all 24 hours on Sundays. PGE also adjusts its avoided cost

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[1] WSCC - Western Systems Coordinating Council, which provides the coordination that is essential for operating and planning a reliable electric system for the western parts of the United States (11 states), Canada, and Mexico.

estimates by season (*winter or summer*). In addition, QF power delivery rates are separated into firm and non-firm categories.[2]

For purchases from QFs with a nameplate capacity of 1 MW or less, the average standard rate for on-peak/off-peak QF deliveries (*PGE Schedule No. 201*) is 1.76/1.61 cents per kWh for the period November through April and 1.63/1.42 cents per kWh for the period May through October. This replaces the currently effective standard on-peak/off-peak rate which is a constant 2.51 cents per kWh for both the winter and summer months.

For a QF of more than 1 MW capacity, a 20-year avoided cost stream beginning in 1997 will yield an estimated annual nominal levelized value for on-peak firm power of 2.52 cents per kWh and 1.95 cents per kWh for off-peak deliveries (*see Attachment 1*). This will replace the December 19, 1995, avoided cost filing estimate (*currently effective*) of 2.88 cents per kWh for on-peak firm power and 2.45 cents per kWh for off-peak firm power deliveries.

Comments of Interested Parties

On December 5, 1996, written comments concerning PGE Advice No. 96-21 were submitted to the OPUC by Oregon Energy Company (OEC). A summary of the concerns expressed by OEC follows:

- Calculation of a utility's avoided costs using a method that is based on expected market prices is unwarranted. More investigation and validation of PGE's MONET model is necessary.
- Limiting QF power purchase contracts to five-year periods contravenes both PURPA and the regulations implementing PURPA. The Congressional intent was to encourage the development of QFs. Limiting contracts to five-years would foreclose financing opportunities.

Staff Response

That PGE bases its avoided cost values on expected wholesale market prices is, I believe, consistent with current market realities and past OPUC policy decisions (*see Order No. 88-1419, Snow Mountain Pine Company vs. CP National Corporation*). The OPUC is responsible for insuring that QF power purchases are in the public interest. PGE purchases a significant amount of its electricity requirements on the wholesale market. Thus, basing its avoided costs on expected market prices is consistent with PGE's current operating practices.

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[2] Non-firm power deliveries are generally those a QF makes on an "as available" basis. PGE updates its non-firm avoided costs with the OPUC each calendar quarter. PGE proposes to use the values listed in this avoided cost filing (*Advice 96-21*) for its 1997 Winter Quarter non-firm avoided costs.

Both the Idaho and California Public Utility Commissions have recently taken action to limit QF contracts to five year terms. In its decision (*see IPUC Order No.26576, issued September 4, 1996*) to limit contract lengths to five years, the IPUC states that: "The grant of authority to the states in implementing the regulation of sales and purchases between QFs and electric utilities, both substantively and procedurally, is broad." The IPUC further states that PURPA; "... regulations are silent as to the length of contract over which the QF is entitled to receive the avoided cost rate."

Furthermore, in a recent order concerning a QF dispute involving the Tennessee Valley Authority (TVA), the Federal Energy Regulatory Commission (FERC) indicated that its established policy is to leave to the states and "appropriate judicial fora" all issues related to the specific application of PURPA requirements to the circumstances of individual QFs.

Therefore, I believe that the Commission has the discretion under PURPA to limit the term of any future QF power purchase contract. Given the continued movement toward a competitive marketplace for electricity and the prevalence of wholesale transactions for terms of five years or less, I find it difficult to justify the need for long-term utility/QF power purchase agreements. Therefore, I conclude that it is in the interest of PGE ratepayers that the Commission allow PGE to limit the term of any future QF power purchase obligation to five years.

STAFF RECOMMENDATION

The OPUC reviews a utility's avoided cost filing in order to insure that the estimated avoided costs are just and reasonable to the utility's consumers and the qualifying facility and are in the public interest.

I have reviewed PGE's avoided cost filing and determined that the values represent a reasonable estimate of PGE's avoided costs. I recommend that Portland General Electric Company's Schedule No. 201 and the Company's revised avoided cost study (Advice No. 96-21) be allowed to go into effect on December 18, 1996.

0.0767	EXPECTED MARKET PRICES *		
PW Factor	On-Peak (cents/kwh)	Off-Peak (cents/kwh)	Average (cents/kwh)
0.929	1.69	1.52	1.62
0.863	1.78	1.58	1.69
0.801	1.90	1.65	1.79
0.744	2.08	1.75	1.94
0.691	2.24	1.82	2.06
0.642	2.41	1.87	2.18
0.596	2.61	1.92	2.31
0.554	2.66	1.94	2.35
0.514	2.69	1.96	2.38
0.478	2.76	2.00	2.43
0.444	2.83	2.05	2.49
0.412	2.85	2.10	2.53
0.383	3.03	2.19	2.67
0.355	3.11	2.25	2.74
0.330	3.27	2.33	2.87
0.307	3.38	2.41	2.96
0.285	3.32	2.44	2.94
0.264	3.42	2.52	3.03
0.246	3.57	2.63	3.17
0.228	3.73	2.73	3.30

	On-Peak (cents/kwh)	Off-Peak (cents/kwh)	Average (cents/kwh)
NPV:	25.39	19.59	22.89
NOM (7.67%)	2.52	1.95	2.27
REAL (5.04%)	2.04	1.58	1.84

RS ARE 6 AM TO 10 PM, MON TO SAT.
60 HRS IN A YEAR, 57% ARE ON-PEAK & 43% ARE OFF-PEAK.