

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1442

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Investigation to Determine if PACIFIC
POWER'S Rate Revision Is Consistent With
the Methodologies and Calculations
Required by Order No. 05-584.

ORDER

**DISPOSITION: UPDATED AVOIDED COST RATES AFFIRMED;
DOCKET CLOSED**

I. INTRODUCTION

The Public Utility Commission of Oregon (Commission) opened this investigation to determine whether the avoided cost filing made by PacifiCorp, dba Pacific Power (Pacific Power), is consistent with the methodologies and calculations required by Order No. 05-584. We find that the filing is consistent with the requirements of Order No. 05-584. We therefore order this docket closed.

II. PROCEDURAL HISTORY

On January 20, 2004, the Commission opened Docket UM 1129 to consider policies regarding electric utility purchases from qualifying facilities (QFs) under the Public Utility Regulatory Policies Act (PURPA). On May 13, 2005, the Commission entered Order No. 05-584 addressing issues related to the standard contract terms and conditions for QFs, including the calculation of avoided costs.

Pursuant to the directive in Order No. 05-584 and in compliance with OAR 860-029-0080(8), Pacific Power filed Advice No. 09-012, on July 9, 2009, requesting revisions to Schedule 37, which sets avoided cost rates for purchases from QFs that are 10 MW or less (Advice 09-012 or Avoided Costs Filing). Pacific Power's Avoided Costs

Filing proposes to update standard avoided cost rates paid to QFs.¹ Pacific Power asserts that the Avoided Costs Filing is consistent with Order No. 05-584.

On August 20, 2009, Commission Staff (Staff) issued a Staff Report regarding the Avoided Costs Filing. The Staff Report noted the lower updated avoided costs proposed in Advice Filing No. 09-012 for the Company's resource sufficiency and resource deficiency periods, and acknowledged the resulting concern in the QF community. The Staff Report concluded that Advice Filing 09-012 was properly filed pursuant to the schedule required by OAR 860-029-0080. The Staff Report also determined that the proposed avoided cost rates were accurately calculated in a manner consistent with the methodology adopted by the Commission in Order No. 05-584, and recommended approval of Advice No. 09-012, thereby allowing the updated rates in Schedule 37 to become effective as filed.

Due to the QF community's concerns, however, the Staff Report also recommended that the Commission open an expedited investigation to further review the compliance of Advice No. 09-012 with the methodologies for calculating avoided costs detailed in Order No. 05-584. Staff's recommendation responded to concerns expressed by the Industrial Customers of Northwest Utilities (ICNU) and QF facilities about the avoided cost rate. On September 8, 2009, at a Public Meeting, the Commission approved Pacific Power's Advice No. 09-012, subject to an investigation into the filing's consistency with the methodologies and calculations required by Order No. 05-584.²

On September 16, 2009, a prehearing conference was held. On September 17, 2009, an Administrative Law Judge issued a prehearing conference memorandum that established a procedural schedule.³ The memorandum also limited the scope of the proceeding to an investigation of whether Pacific Power's avoided cost filing was consistent with the methodologies and calculations required by Order No. 05-584, without an examination of the underlying methodologies and calculations.

ICNU, the Oregon Department of Energy (ODOE), the Renewable Energy Coalition, Co-Gen II, LLC, the Community Renewable Energy Association (CREA), Biomass One, L.P. (Biomass One), the Farmers Irrigation District and Portland General Electric Company (PGE) intervened.

On September 29, 2009, Pacific Power filed opening testimony. On October 6, 2008, ICNU, Biomass One, the Renewable Energy Association and CREA filed a joint application requesting reconsideration of the scope and schedule established for the proceeding. On October 28, 2009, the Commission entered Order No. 09-427 denying the application, and affirming the limitations on the scope and schedule of the proceeding.

¹ The Company's standard avoided costs were last updated on July 12, 2007.

² The Commission also opened a separate docket, UM 1443, to similarly investigate the avoided cost filing made by Portland General Electric Company (PGE).

³ The prehearing conference and memorandum jointly addressed Docket Nos. UM 1442 and UM 1443, but indicated that the dockets would proceed independently.

On November 3, 2009, Staff and ICNU filed opening testimony. On November 19, 2009, Pacific Power and Staff filed rebuttal testimony.

On December 1, 2009, Staff filed a letter on behalf of itself and Pacific Power, ICNU, and ODOE stating that the active parties in the proceeding did not intend to cross examine any witnesses. Accordingly, the hearing scheduled for December 8, 2009, was cancelled.

On December 15, 2009, Pacific Power and Staff filed a joint brief, and ICNU and ODOE independently filed briefs.

III. DISCUSSION

A. Scope of Hearing

As discussed above, the scope of this proceeding is limited to determining whether Pacific Power's Advice Filing No. 09-012, which revises standard rates in Schedule 37 for avoided costs purchases from QFs of 10 MW or less, is consistent with the methodologies adopted in Order 05-584. Testimony and briefs concerning the underlying validity of Order No. 05-584 are beyond the scope of this investigation, and are not addressed in this order.

B. Compliance with the Requirements of Commission Order No. 05-584

In Order 05-584, the Commission readdressed how avoided costs should be calculated to accurately estimate the incremental costs incurred by a utility to obtain power from a QF. The Commission reaffirmed that the calculation of avoided costs should be differentiated to reflect whether a utility is in a resource deficiency or resource sufficiency period.⁴ For Pacific Power, when the Company is resource deficient, the Commission reaffirmed use of the methodology historically used in Oregon to calculate avoided cost rates when a utility is in a resource deficient position.⁵ Under this methodology, avoided cost rates reflect the variable and fixed costs of a combined cycle combustion turbine (CCCT).⁶ When Pacific Power is in a resource sufficient position, the Commission determined that avoided cost would be valued based on monthly on- and off-peak, forward market prices as of the avoided cost filing.⁷

1. Parties' Positions

In opening testimony, Pacific Power explained how the Company had calculated avoided costs consistent with Order No. 05-584. As the methodology to define a resource sufficiency period versus as resource deficiency period is currently under consideration in Docket UM 1396, Pacific Power explained that the historical methodology

⁴ Order No. 05-584, p. 27.

⁵ *Id.* at 27-29.

⁶ *Id.*

⁷ *Id.*

was used and showed that the Company is energy sufficient through 2013, with deficiency beginning in 2014. Pacific Power's testimony then discussed the calculation of avoided costs for the Company's resource sufficiency and resource deficiency periods.

In Staff's August 25, 2009, Report, Staff noted that Pacific Power's avoided cost filing contained lower initial rates, which was a concern for the entire QF community as the decrease in avoided cost rates would make it harder to develop new small QF projects, or renew existing small QF project contracts, while larger QFs would also be affected as the avoided cost rates in Schedule 37 provide the basis for pricing individual negotiated agreements. Staff concluded, however, that Pacific Power filed its new avoided cost rates in accordance with the requirements of OAR 860-029-0080, and that the new rates were consistent with the methodology adopted by the Commission in Orders in Docket UM 1129.

Staff's testimony affirmed the conclusions in Staff's August 25, 2009, Report. Staff stated:

I conclude that PacifiCorp filed its avoided cost rates using the methodologies required by Order No. 05-584. I further conclude that the prices PacifiCorp used to determine the rates were consistent with the projected market prices available to the company at the time they filed the rates. PacifiCorp calculated their rates without making any arithmetical errors, and the rates that were put into effect are reasonable. In addition, the current rates appear to have been calculated using the same methodologies that were used to determine the previous avoided cost rates that had been in place for two years after being approved in Advice No. 07-021.⁸

ICNU also filed opening testimony, on November 3, 2009. ICNU's testimony expressly did not review the accuracy or reasonableness of Pacific Power's avoided costs calculations in Advice No. 09-012. ICNU's testimony did not sponsor an alternative avoided cost rate either. Instead, ICNU avowed the concern that "the methodology used in computing the avoided cost rates is inaccurate and results in less than full avoided costs," but acknowledged that the narrow scope of the proceeding did not permit this issue to be explored.⁹ ICNU also stated that it "remains concerned that PacifiCorp continues to acquire new capacity and energy resources, but bases its short-term avoided costs on costs less the full per unit cost of these new resources."¹⁰

⁸ Staff/100, Durrenberger/5.

⁹ ICNU/100, Falkenberg/3.

¹⁰ Opening Brief of ICNU, p. 2.

ODOE did not file testimony, but did file a brief. In its brief, ODOE expresses support for a separate investigation into the determination of avoided costs and suggests several issues for consideration.

In the Joint Parties' Brief, Staff and Pacific Power indicate that no party raised any substantive issue in this proceeding. Accordingly, Staff and Pacific Power request that the Commission affirm approval of Pacific Power's Avoided Cost Filing.

2. Resolution

Based upon concerns initially expressed within the QF community about updated avoided cost rates set forth in Pacific Power's Advice No. 09-012, we opened this proceeding to determine whether the rates had been correctly calculated pursuant to the methodologies and calculations required by Order No. 05-584. In Order No. 09-427, we affirmed that the scope of this proceeding would not be expanded beyond this question.

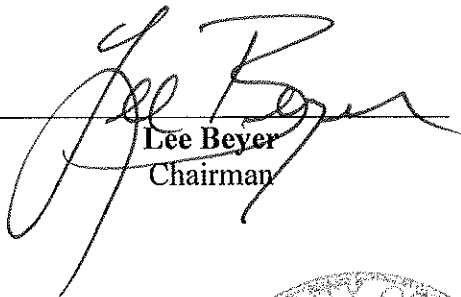
As it turns out, however, intervenors in this proceeding, such as ICNU, only wanted to revisit the soundness of the methodologies and calculations established in Order No. 05-584. Consequently, no party other than Pacific Power and Staff actually examined whether the updated avoided cost rates in Pacific Power's Advice No. 09-012 were properly determined. Nor did any party raise a substantive issue regarding the accuracy of the updated rates. Rather, the only evidence presented in this proceeding, by Staff and Pacific Power, indicates that the updated avoided cost rates set forth in Pacific Power's Advice No. 09-012 were properly determined pursuant to the methodologies and calculations required by Order No. 05-584. Consequently, we affirm the validity of the updated avoided cost rates. We also close this docket. Again, we remind parties that other proceedings may be used, to the extent appropriate, to address proper valuation of a utility's avoided costs.

III. ORDER

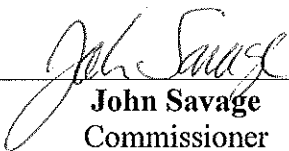
IT IS ORDERED that:

1. Updated avoided cost rates set forth in Advice No. 09-012 are affirmed;
and
2. Docket UM 1442 is closed.


Made, entered, and effective DEC 28 2009.



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.