

October 31, 2016

***VIA ELECTRONIC FILING***

Public Utility Commission of Oregon  
201 High Street SE, Suite 100  
Salem, OR 97301-1166

Attn: Filing Center

**Re: Docket UM 1610—PacifiCorp’s Opening Comments**

PacifiCorp, d/b/a Pacific Power (PacifiCorp or Company), respectfully submits these opening comments consistent with Order No. 16-417. As PacifiCorp explained during the October 25, 2016, public meeting, the procedural issue before the Public Utility Commission of Oregon (Commission) is very narrow—whether PacifiCorp’s non-standard avoided cost (Schedule 38) compliance filing complies with Order No. 16-174.<sup>1</sup> The Commission should approve PacifiCorp’s compliance filing because:

- It complies with the clear terms of Order No. 16-174, and no party identified any inconsistencies between PacifiCorp’s Schedule 38 compliance filing and the terms of Order No. 16-174.
- PacifiCorp detailed the Partial Displacement Differential Revenue Requirement (PDDRR) methodology for calculating non-standard avoided cost prices in testimony in Phase II of docket UM 1610, including making it clear that the PDDRR methodology developed a single price stream.
- Staff and intervenors had ample opportunity to test PacifiCorp’s proposal through data requests and testimony, but no party opposed the methodology based on the lack of a renewable price stream. In fact, Staff explicitly supported PacifiCorp’s methodology and recommended that the Commission approve it.
- The clearest indication that the Commission, in adopting PacifiCorp’s PDDRR methodology, intended to adopt one price stream as the starting point for Schedule 38 negotiations is the fact that the Commission: (1) eliminated the link between Schedule 37 and Schedule 38 prices; and (2) did not approve a separate methodology (or changes to the proposed PDDRR) that could be used to develop a Schedule 38 renewable price stream.

PacifiCorp opposes efforts by Staff and QF parties to further delay implementation of Order No. 16-174 in light of arguments and evidence that were not raised and are not part of the record

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<sup>1</sup> On October 24, 2016, PacifiCorp submitted a letter responding to Staff’s October 21, 2016, report for the public meeting. By this reference, PacifiCorp incorporates its October 24, 2016 comment letter into these opening comments.

in Phase II of UM 1610. Staff and intervenors now seek a second bite at the apple. PacifiCorp does not agree that the conclusions in Order No. 16-174 should be reopened for additional litigation. But if the Commission determines that additional record development is necessary, PacifiCorp urges the Commission to: (1) immediately approve its Schedule 38 compliance filing because no party has argued that it fails to conform to Order No. 16-174; and (2) initiate an expedited process for resolving the arguments around PacifiCorp's PDDRR methodology. Furthermore, if the record regarding PDDRR calculations is reopened, PacifiCorp requests that the Commission allow for additional review of the market price floor to ensure that long-term, fixed-price contracts for large qualifying facilities (QFs) do not exceed actual avoided costs.

## I. BACKGROUND

### A. PacifiCorp Transparently Described its PDDRR Methodology

During Phase II, PacifiCorp provided detailed testimony about how its PDDRR methodology worked. That testimony transparently described the fact that the PDDRR methodology, which the Company commonly uses to calculate non-standard avoided cost prices in Utah, Wyoming, and Idaho, calculates avoided cost prices based on the deferral of a thermal resources.<sup>2</sup> PacifiCorp introduced its PDDRR methodology as follows:

Under the PDDRR method, the Company performs two simulations using the GRID model to determine the system energy value of a QF resource, taking into account its specific operating characteristics and point of delivery on the Company's system. In addition, the PDDRR method includes avoided fixed costs of the Company's next major resource acquisition, based on the cost and timing of the next deferrable resource in the IRP preferred portfolio. The amount of capacity displaced is determined using the capacity contribution of the QF resource and the avoided fixed costs are spread over the capacity factor of the QF. The timing for including avoided fixed costs from the next deferrable resource is adjusted to account for new QFs (since the IRP was published) that will be on the Company's system at the time the next major resource is acquired.<sup>3</sup>

The testimony detailed how the avoided costs of energy would be calculated under the PDDRR method:

Using the PDDRR method, QF avoided cost prices consist of three main components: avoided capacity costs, avoided energy costs, and integration costs (where applicable).

The calculation of the avoided energy cost begins with existing and planned resources that represent the Company's most recent IRP resource portfolio. The Company runs two simulations using the GRID model to determine the avoided energy cost. The first

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<sup>2</sup> See, e.g., PAC/800, Dickman/16.

<sup>3</sup> PAC/800, Dickman/18.

simulation (the Base Simulation) calculates net power costs based on the Company's existing resource portfolio and planned resource additions, including signed and potential QFs. The second simulation (the Avoided Cost Simulation) calculates net power costs of the resource portfolio with two modifications: the operating characteristics of the next QF are added with its energy included at zero cost, and the capacity of the next deferrable resource is reduced by an amount equal to the QF's capacity contribution.

This reduction in the capacity of the next deferrable resource is known as partial displacement. Front office transactions are the next avoidable resources partially displaced during the sufficiency period followed by the next deferrable thermal generating resource during the deficiency period. The difference in net power costs between the Avoided Cost Simulation and the Base Simulation equals the avoided energy cost.<sup>4</sup>

PacifiCorp repeatedly described how the PDDRR methodology calculates non-standard avoided costs based on deferring a *thermal* resource. For example, PacifiCorp testified that “[allowing] GRID to model to *redispatch thermal resources*, including the combined cycle plants from the IRP preferred portfolio, captures the change in operation and costs that occurs with the addition of a QF on the Company's system.”<sup>5</sup>

PacifiCorp reiterated this point in its description of how PDDRR calculates avoided costs during the deficiency period:

The Company calculates the avoided fixed costs of the next deferrable resource outside of the GRID model based on *partial displacement of the next major thermal resource acquisition in the IRP* (that has not already been displaced by QFs with contracts extending beyond the expected online date of the next major resource). The fixed costs of the deferrable resource as reported in the IRP are adjusted for the capacity contribution of the specific QF type. Because the GRID model results capture the system impacts of displacing the deferrable resource, the avoided fixed costs are converted to a volumetric (\$/MWh) rate by spreading them over the QF's expected annual generation.<sup>6</sup>

PacifiCorp's testimony included a table<sup>7</sup> comparing the single Schedule 38 price stream calculated with PDDRR with the two Schedule 37 prices streams (standard and renewable):

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<sup>4</sup> PAC/800, Dickman/21-22.

<sup>5</sup> PAC/800, Dickman/19-20 (emphasis added).

<sup>6</sup> PAC/800, Dickman/23 (emphasis added).

<sup>7</sup> PAC/800, Dickman/19, Table 2.

**Table 2, 15-Year (2016-2035) Nominal Levelized Price at 6.882% Discount Rate (\$/MWh)**

	PDDRR	Current Sch. 37	
		Standard	Renewable
Wind 27.0% CF	\$36.64	\$40.91	\$59.24
Solar 23.6% CF	\$37.11	\$46.88	\$66.54
Thermal 85.0% CF	\$43.68	\$52.07	\$70.40

This table makes clear that PacifiCorp was proposing a single PDDRR-based pricing stream, not a pricing stream that was bifurcated between standard and renewable inputs like Schedule 37.

**B. Staff Supported PacifiCorp’s Proposal**

Staff unequivocally supported PacifiCorp’s proposal to adopt the PDDRR methodology for calculating non-standard avoided cost prices.<sup>8</sup> Staff recommended that utilities be “allowed to use a computer based model to calculate negotiated avoided costs.”<sup>9</sup> Staff described the PDDRR methodology as “thoroughly vetted by the companies and Staff.”<sup>10</sup> Staff also testified that the PDDRR methodology is “likely to provide a more accurate quantification of the impact of a QF based on its specific characteristics than a generic CCCT calculation with adjustments applied to it. To put it simply, an estimate (the adjustments) overlaid onto a simplified estimate (the avoided CCCT resource) will likely be less accurate than a single complex estimate.”<sup>11</sup>

**C. No Party Argued That the PDDRR Methodology Should Include a Renewable Price Stream**

Significantly, no party argued that the PDDRR method should have a separate renewable pricing option or that it was inconsistent with Order No. 11-505. In fact, only two parties submitted testimony challenging PacifiCorp’s PDDRR proposal—the Oregon Department of Energy (ODOE) and the Renewable Energy Coalition (REC). ODOE argued that the PDDRR method “[was] not more accurate” than the then-current method because it would “go back to the method of using decremental generating costs during periods of sufficiency.”<sup>12</sup> REC generally argued that computer-based models “will not result in more accurate avoided cost rates, but will instead increase costs ... during an already difficult and complex negotiating process.”<sup>13</sup> But neither party raised the concern at issue here.

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<sup>8</sup> Staff/600, Andrus/20-22.

<sup>9</sup> Staff/600, Andrus/22.

<sup>10</sup> *Id.*

<sup>11</sup> Staff/500, Andrus/34.

<sup>12</sup> ODOE/900, Carver/9-10.

<sup>13</sup> Coalition/500, Lowe/10.

#### **D. The Commission Adopted PacifiCorp's PDDRR Methodology**

On May 13, 2016, the Commission issued Order No. 16-174, which authorized PacifiCorp to use its PDDRR methodology *as described in PacifiCorp's testimony* to calculate Schedule 38 prices.<sup>14</sup> The Commission instructed parties to submit revised contracts and avoided cost schedules that comply with the order.

#### **E. PacifiCorp's Compliance Filing & Reconsideration**

PacifiCorp submitted a revised Schedule 38 complying with Order No. 16-174 on July 12, 2016. PacifiCorp and PGE also filed a Joint Application for Reconsideration on the same day, which asked the Commission to reconsider a narrow aspect of Order No. 16-174 (whether non-standard avoided cost prices should be subject to a market price floor). While the Commission denied reconsideration, it invited PacifiCorp to re-raise the issue at a later date.<sup>15</sup>

No party sought rehearing or reconsideration of Order No. 16-174 on grounds that non-standard avoided cost prices should be based on a renewable avoided price stream.

## **II. ARGUMENT**

The issue before the Commission is whether PacifiCorp's July 12, 2016 Schedule 38 update complies with the Commission's order in Phase II of this docket (Order No. 16-174). The Commission has repeatedly ruled that "the standard of review for a compliance filing is whether the [compliance filing] is consistent with the resolutions and determination made by the Commission in its final order."<sup>16</sup>

No party has argued that PacifiCorp's Schedule 38 compliance filing is inconsistent with Order No. 16-174. Instead, Staff and others improperly argue that the Commission should deny the compliance filing based on evidence and arguments that are not part of the Phase II record. As detailed above, PacifiCorp transparently described how the PDDRR methodology generates non-standard avoided cost prices. Staff cannot escape the fact that it unambiguously supported PacifiCorp's PDDRR methodology,<sup>17</sup> and PacifiCorp has implemented that methodology exactly as described. Similarly, intervenors who oppose approval of the compliance filing cannot escape the fact that they did not challenge the PDDRR methodology on the grounds being raised here for the first time; these new, extra-record arguments do not support a finding that PacifiCorp has not complied with Order No. 16-174.

Adding to these procedurally defective arguments is the fact that no party sought rehearing or reconsideration of the Commission's adoption of the PDDRR methodology based on these

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<sup>14</sup> Order No. 16-174 at 2 ("PacifiCorp is authorized to use its [PDDRR] method to determine a starting point for non-standard contract avoided cost price negotiations.")

<sup>15</sup> Order No. 16-337 at 6 (Sept. 8, 2016).

<sup>16</sup> *See, e.g.*, Order No. 10-260.

<sup>17</sup> *See, e.g.*, Staff/600, Andrus/22 ("Staff believes that an accurate accounting for the impacts on individual utility systems can be achieved through the use of the production cost models, which are also used to estimate and set rates for power costs each year. They have been thoroughly vetted by the companies and by Staff.")

arguments. Furthermore, Staff has provided no legal citation supporting its novel position that a compliance filing may be rejected based on extra-record evidence and arguments.<sup>18</sup>

Furthermore, Cypress Renewable LLC's complaint in UM 1799 does not justify further delaying implementation of the Commission's final Phase II order. The Commission's adoption of the PDDRR methodology renders Cypress's grievances moot on a prospective basis. The Commission will address Cypress's arguments as applied to the pre-PDDRR world in docket UM 1799, and those arguments have no bearing on whether PacifiCorp's filing complies with Order No. 16-174.

Staff and intervenors have not justified their proposal to delay approving PacifiCorp's non-standard avoided cost compliance filing. If the Commission agrees that further vetting of the PDDRR methodology is warranted, PacifiCorp asks the Commission to initiate an expedited process for doing so. The Commission has recognized that the PDDRR methodology results in more accurate avoided cost prices, so further delaying its implementation will harm customers by allowing QFs to lock in inaccurate avoided cost prices during the pendency of additional record development.

If the Commission determines that the PDDRR record should be reopened, PacifiCorp requests that the Commission provide an opportunity for additional consideration of the market price floor adopted for non-standard prices in Order No. 16-174.<sup>19</sup> Under the PDDRR method, and in actual operation, the output of a QF does not only displace market purchases or enable market sales. Locking in sufficiency period prices at a fixed market price curve undermines the PDDRR method from the start and nullifies the results of a production cost model. The practical result of the market price floor is to pay standard avoided costs during the sufficiency period, based strictly on static wholesale market prices, to all Oregon QFs regardless of size, sequence, or impact on PacifiCorp's system.

### III. CONCLUSION

PacifiCorp respectfully asks the Commission to accept its July 12, 2016 Schedule 38 compliance filing. PacifiCorp's compliance filing presents the Commission with a simple question—whether its Schedule 38 proposal complies with the terms of the order. The arguments raised by Staff and intervenors are unavailing and do not justify further delaying implementation of Order No. 16-174. Staff's recommendations are inconsistent with its testimony in Phase II (the only testimony on the contested issue) and improperly rely on extra-record considerations. Accordingly, PacifiCorp's July 12, 2016, compliance filing should be immediately approved.

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<sup>18</sup> Staff's position that extra-record considerations justify rejecting a compliance filing conflicts with bedrock principles of administrative law and its own Internal Operating Guidelines. *See* ORS 756.558(2) (requiring the Commission to decide contested cases based "upon evidence received in the matter."); *see also* Commission Internal Operating Guidelines, Order No. 14-358, Docket No. UM 1709, Appendix A at 7 (In contested cases, the Commission must base its decisions exclusively on an evidentiary record developed in a trial-like proceeding.)

<sup>19</sup> The Commission has already recognized that additional review of the market price floor may be necessary. Order No. 16-337 at 6.

If the Commission believes that additional record development is necessary, PacifiCorp requests that the Commission:

1. Immediately approve PacifiCorp's non-standard avoided cost compliance filing;
2. Initiate an expedited process for resolving the arguments around PacifiCorp's PDDRR methodology; and
3. Allow for additional review of the market price floor to ensure that long-term, fixed-price contracts for large QFs do not exceed actual avoided costs.

Respectfully submitted this 31<sup>st</sup> day of October, 2016.

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Dustin T. Till  
Senior Counsel  
PacifiCorp  
825 NE Multnomah Street, Suite 1800  
Portland, OR 97232-2135  
Phone: (503) 813-6589  
[dustin.till@pacificorp.com](mailto:dustin.till@pacificorp.com)