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January 24, 2008

***Via Electronic and U.S. Mail***

Public Utility Commission  
Attn: Filing Center  
550 Capitol St. NE #215  
P.O. Box 2148  
Salem, OR 97308-2148

Re: In the Matter of PUBLIC UTILITY COMMISSION OF OREGON  
Staff's Investigation Related to Electric Utility Purchases from  
Qualifying Facilities  
**Docket No. UM 1129**

Dear Filing Center:

Enclosed please find an original and a courtesy copy of the UM 1129  
Compliance Filing Letter in the above-captioned docket.

Thank you for your assistance.

Sincerely yours,

/s/ Brendan E. Levenick  
Brendan E. Levenick

Enclosures

cc: Service List

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the UM 1129 Compliance Filing Letter on the official service list by causing the foregoing document to be deposited, postage-prepaid, in the U.S. Mail, or by service via electronic mail to those parties who waived paper service.

Dated at Portland, Oregon, this 24th day of January, 2008.

*/s/ Brendan E. Levenick*  
Brendan E. Levenick

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January 24, 2008

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Re: PacifiCorp and PGE UM 1129 Compliance Filings

The Industrial Customers of Northwest Utilities (“ICNU”) and Weyerhaeuser Corporation (“Weyerhaeuser”) have reviewed Pacific Power’s (“PacifiCorp”) November 2, 2007 Advice Filing 07-021 and Portland General Electric’s (“PGE”) November 1, 2007 Advice Filing 07-27, both filed in compliance with Order 07-360 in the Oregon Public Utility Commission’s (“OPUC” or the “Commission”) qualifying facility (“QF”) docket, UM 1129. ICNU and Weyerhaeuser’s primary interest in the utilities’ filings are the specific terms of Schedule 38 and Schedule 202, which set forth the procedures and guidelines that PacifiCorp and PGE will follow in negotiating non-standard QF contracts with QFs larger than 10 megawatts (“MW”). These procedures and guidelines were a principal subject of Order 07-360, and the adopted guidelines are summarized in Appendix A to that decision. ICNU and Weyerhaeuser have not reviewed, and offer no comments on Idaho Power Company’s compliance filing.

ICNU and Weyerhaeuser are concerned that both PacifiCorp’s and PGE’s compliance filings will allow the utilities to continue to impose onerous restrictions on QFs and harm the development of cost effective QFs in Oregon. For the most part, the compliance filings do not include the utilities’ specific methodologies that will be used to make adjustments to the avoided costs for large QFs. Because of this lack of detail and vagueness, the utilities may be able to continue to erect illegitimate barriers to the development of large QFs.

## A. PacifiCorp

ICNU and Weyerhaeuser believe that PacifiCorp’s compliance filing fails to comport with Order 07-360 in a number of respects, as set forth below. As a preliminary matter, ICNU and Weyerhaeuser note that PacifiCorp’s compliance filing is

superior to PGE's in that it includes more detail regarding how it plans to adjust the avoided costs for large QFs. Although IGNU and Weyerhaeuser believe the information in PacifiCorp's compliance filing is in some places insufficient to allow the Commission or a QF to understand how PacifiCorp plans to adjust the avoided costs, IGNU and Weyerhaeuser appreciate PacifiCorp's effort to provide QFs with some details regarding the methods that will be used to calculate the avoided costs for large QFs.

ICNU and Weyerhaeuser's concerns center on the adjustments that PacifiCorp proposes to reflect in its indicative pricing proposals to non-standard QFs. Some of these adjustments merely summarize the language in the Commission's Order 07-360, but do not provide any detail as to how PacifiCorp will actually adjust the avoided costs for factors like dispatchability, reliability and fossil fuel risk. Weyerhaeuser is aware that PacifiCorp has developed methods to calculate how their avoided costs are adjusted, and IGNU and Weyerhaeuser believe that this should be identified and included in the compliance filing. Without this additional information, the Company may have the ability to impose adjustments and restrictions upon QFs that were not approved by the Commission.

**1. Schedule 38 Should Clarify that Adjustments from Standard Avoided Cost Rates Must be Approved by the OPUC**

Guideline 8 from Appendix A of the order provides that "the utility should not make adjustments to standard avoided cost rates other than those approved by the Oregon Commission and consistent with these guidelines." The new Schedule 38 states that "any adjustments other than those listed in Order 07-360 must first be approved by the Commission." It is not clear what is meant by "listed in Order 07-360." The order references and discusses a number of specific adjustments that parties proposed, which the order does not adopt. It is unclear if PacifiCorp will consider these adjustments that were not adopted by the Commission as "listed" in Order 07-360. For example, page 19 of the order cites PacifiCorp's position that avoided cost rates based on market purchases should be reduced by the cost of reserves. This adjustment could be considered to be "listed in Order 07-360," but it was not adopted. In addition, such a deduction is not part of PacifiCorp's filed avoided costs in the sufficiency period, which are based on market purchases.

Schedule 38 simply should be clarified to state that "any adjustments must first be approved by the Commission."

**2. The Reference to "Service Quality" Should Be Removed**

Schedule 38 proposes to allow a reliability adjustment based on "the QF's demonstrated service quality" as well as the "availability of its capacity and energy." It is unclear what is meant by "service quality," and such an adjustment is not defined, specified, or discussed in Order 07-360. As noted above, Order 07-360 is clear that the utility may only make adjustments to avoided costs that the Commission has approved.

The reference to “service quality” in the compliance filing appears to be an effort by PacifiCorp to justify subtracting the cost of reserves from its market-based avoided costs during the sufficiency period. PacifiCorp may claim to justify such a deduction on the grounds that QFs do not supply reserves and thus offer a product with a lower “service quality.” If PacifiCorp wanted to make an adjustment for “service quality,” then it should have proposed the adjustment in UM 1129, and provided the Commission an opportunity to rule on its reasonableness. Guideline 9 of the order makes clear that the reliability adjustment is meant “to provide an incentive for the QF to achieve the contracted level and timing of energy deliveries.” This is covered by an adjustment based on the availability of the QF’s capacity and energy during peak periods, and does not refer to “service quality” issues. Therefore, the reference to “service quality” should be deleted.

Including an adjustment for “service quality” would also result in discriminatory treatment of large QFs compared to small QFs (under 10 MW), whose avoided costs are not adjusted for the costs of reserves or “service quality.” The Commission has made clear that adjustments to the standard avoided cost rates for large, non-standard QFs must reflect characteristics of those QFs that are different than QFs under 10 MW. PacifiCorp has argued to Weyerhaeuser that the costs of reserves should be subtracted from avoided cost rates because QFs are network resources, for which PacifiCorp must carry reserves. Both large and small QFs are network resources, and this is not a reasonable basis to adjust only the avoided cost rates for large QFs.

### **3. Line Losses**

ICNU and Weyerhaeuser support the language on the line loss adjustment that PacifiCorp has included in Schedule 38, but believe that additional clarification is needed. Order 07-360 adopted a modified version of PacifiCorp’s own proposal that “[a line loss] adjustment to avoided cost prices, either as an increase or a decrease, is based on costs or savings resulting from a QF delivering power to a load area, in lieu of power that the utility would have supplied to that same area (either generated or purchased).” Order 07-360 at 25. In the UM 1129 proceedings, Weyerhaeuser and ICNU proposed, and Order 07-360 adopted, the clarification that the load area should be the one in which the QF is located.<sup>1/</sup> As a result, Schedule 38 should add the clarification that “QFs serving on-site loads or their immediate local area allow the utility to avoid transmission losses.”

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<sup>1/</sup> Both staff and ICNU supported PacifiCorp’s proximity-based line loss method in UM 1129 with the clarification that “the load area intended is the load area closest to the QF, not the load area closest to the proxy plant.” Order 07-360 at 25-26. The Commission accepted PacifiCorp’s method “as clarified” by staff and ICNU. Order 07-360 at 26. In Weyerhaeuser’s case, its Albany Mill delivers power to the immediate local area (indeed, to the Mill itself), which allows PacifiCorp to avoid the transmission losses associated with transmitting system power to that location.

ICNU and Weyerhaeuser's recommendation is based on pages 25-26 of Order 07-360, PacifiCorp's UM 1129 compliance filing, and the rebuttal testimony of PacifiCorp's Bruce Griswold in UM 1129. The Schedule 38 at 3.B.d filing reflects Guideline 13 in Order 07-360: "the utility should adjust avoided cost rates for QF line losses relative to the utility proxy plant based on a proximity-based approach":

Line Losses - Adjustment will be the costs or savings resulting from variations in line losses using a proximity-based approach to compare the Qualifying Facility's location and the Company's proxy plant location relative to the closest load area served by the Qualifying Facility.

Mr. Griswold's testimony (PPL/407), at page 6, sets forth in more detail how the proximity approach works:

If the proxy resource is closer to the load area than the QF delivery volume, net of any station service or load self-served, is reduced by the loss factor because the Company incurs additional losses bringing the QF power to the load center in relationship to the proxy resource. If the QF is closer to the load center in relationship to the proxy resource, the delivery volume by the QF that meets the applicability criteria described above, net of station service, is grossed up by the appropriate loss percentage factor.

If the QF serves loads on-site (as is the case with Weyerhaeuser's Albany Mill), or even in the immediate area of its plant, it is indisputable that the QF is closer to the load center than the proxy resource. The proxy resource is either the wholesale market (during the sufficiency period) or a specific new plant (during the deficiency period). As a result, QF generation that serves on-site or local loads incurs no transmission losses, and the avoided costs for such a QF should be grossed up by PacifiCorp's OATT transmission percentage loss factor, as specified in the methodology set forth in Mr. Griswold's testimony.

Weyerhaeuser is aware that PacifiCorp may take the position that a QF which serves on-site or local loads does not avoid transmission line losses, on the grounds that the QF's power must be wheeled to the market (during the sufficiency period). Under this perspective, the determination of whether a loss adjustment applies would be based on the QF's proximity to the market, not to the nearest load. But that is not the proximity method that the OPUC adopted in Order 07-360. PacifiCorp's UM 1129 compliance filing is clear that the proximity-based approach should "compare the Qualifying Facility's location and the Company's proxy plant location relative to the closest load area served by the Qualifying Facility," not relative to the market. To ensure that there is no further confusion on this point, Schedule 38 should be modified to add the clarification that "QFs serving on-site loads or their immediate local area allow the utility to avoid transmission losses."

**4. Avoided Transmission and Distribution Costs.**

Order 07-360 specifically states at page 27 that “avoided T&D costs should be taken into account in determining avoided costs.” Schedule 38, Section B.2.e, refers only to the potential for QFs to defer or avoid costs for upgrades to the T&D system. Weyerhaeuser and ICNU believe that limiting T&D costs to upgrades does not reflect the full extent to which QFs can avoid T&D costs. A QF should obtain credit for all avoided transmission and distribution costs, including those costs that are avoided if a local load makes additional capacity available on the exiting transmission system. PacifiCorp’s compliance filing should be revised to reflect that all avoided transmission and distribution costs should be taken into account.

**5. Schedule 38 Should Include the Option for the QF to Choose a “Surplus Sale” or a “Simultaneous Purchase and Sale”**

Guideline 17.1 of the Order specifies the conditions under which the QF may elect either a “surplus sale” or a “simultaneous purchase and sale.” This option and its associated conditions also should be specified in Schedule 38.

**B. PGE**

Section 3 of PGE’s Schedule 202 states that standard avoided costs from Schedule 201 “will be modified to address the following specific factors established in OPUC Order No. 07-360 and FERC 18 § CFR 292.304(e).” The tariff then lists the “factors affecting rates for purchases” from QFs that are enumerated in the FERC regulations, but does not list the “specific factors established in OPUC Order No. 07-360.” The Commission’s Order 07-360 provided important details on the allowable adjustments to standard avoided cost rates, and specified that only these Commission-approved adjustments would be permitted. Schedule 202 inappropriately fails to identify the factors established by the Commission or clearly state that PGE cannot impose additional factors on QFs.

ICNU and Weyerhaeuser believe that prospective QFs need to be informed through PGE’s tariff of the adjustments to standard avoided cost rates that the Commission approved in Order 07-360. At a minimum, the specific adjustments that the Commission approved in Order 07-360 and listed in Appendix A to that order should be added to PGE’s Schedule 202. By identifying the specific adjustments, QFs and the Commission may be able to determine if PGE intends to impose additional requirements not authorized in Order 07-360. In addition, Schedule 202 should also include the specific methodologies by which PGE plans to calculate the adjustments identified by the Commission. This would provide a more transparent negotiating process and limit PGE’s ability to interpret the adjustments in a manner inconsistent with Order 07-360.

Lisa Schwartz  
January 24, 2008  
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ICNU and Weyerhaeuser appreciate the Commission staff's consideration of these comments on PacifiCorp's and PGE's UM 1129 compliance filings, and ask the staff to take whatever action is appropriate to incorporate the revisions presented above into PacifiCorp's Schedule 38 and PGE's Schedule 202.

Sincerely yours,

*/s/ Irion A. Sanger*  
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cc: Service List