

ITEM NO. 3


PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT

PUBLIC MEETING DATE: June 23, 2015

REGULAR   X   CONSENT        EFFECTIVE DATE   June 30, 2015  

DATE: June 15, 2015

TO: Public Utility Commission

FROM: Brittany Andrus 

THROUGH:    
Jason Eisdorfer and Aster Adams

SUBJECT: PACIFIC POWER: (Docket No. UM 1729) Updates Qualifying Facilities  
Avoided Cost Payments, Schedule 37.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission issue an order approving Pacific Power's annual update to Schedule 37, Avoided Cost Purchases from Qualifying Facilities (QFs) 10,000 kW or Less, filed on May 1, 2015 in compliance with the requirements of Order No. 14-058, to be effective 60 days after filing on June 30, 2015.

**DISCUSSION:**

**Issue**

Under Order No. 14-058, utilities update their standard avoided cost prices on May 1 of every year. In this memorandum, Staff reviews PacifiCorp's updated standard renewable and non-renewable avoided cost prices.

**Applicable Orders**

On February 24, 2014, the Commission issued Order No. 14-058 in Phase I of its Investigation into Qualifying Facilities Contracting and Pricing (Docket No. UM 1610) resolving several disputed issues. One resolved issue was the "Schedule for Avoided Cost Updates." The Commission stated,

[a]fter reviewing the parties' proposals, we adopt a new requirement for an annual update on a specific day each year, in addition to the current complete avoided cost update following each IRP acknowledgement order. We direct

electric utilities to update their avoided cost rates 30 days after IRP acknowledgement, and on May 1 every year. In the event that an IRP is acknowledged within 60 days of May 1 in a particular year, the Commission will use its discretion at that time to direct a utility to waive its 30-day post IRP update.

Annual updates, filed every May 1, will include the following four factors:

- (1) Updated natural gas prices;
- (2) On- and off-peak forward-looking electricity market prices;
- (3) Changes to the status of the Production Tax Credit; and
- (4) Any other action or change in an acknowledged IRP update relevant to the calculation of avoided costs.

Electric utilities' annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing.<sup>1</sup>

The Commission later clarified that the May 1 updates would not begin in 2014 because compliance filings that included updates to avoided costs were required within 60 days of the issuance of Order No. 14-058.<sup>2</sup> Therefore, 2015 is the first year of annual May 1 avoided cost updates from the three electric utilities.

## Background

Pacific Power's current standard avoided costs were filed on April 10, 2014. Parties participated in a series of workshops to resolve disputed issues, and a revised Schedule 37 was included with a stipulation filed August 11, 2014. The Commission adopted the Stipulation and the Schedule 37 avoided cost prices effective August 20, 2014 under Order No. 14-295. In accordance with Order No. 14-058, Schedule 37 now contains both non-renewable and renewable avoided cost prices, each for three types of resources with varying contributions to peak load: baseload, wind, and solar.

The avoided cost prices in PacifiCorp's May 1, 2015 filing incorporate updated natural gas prices and forward market electricity prices. PacifiCorp did not change its assumption regarding the Production Tax Credit and incorporated no other updates

## Analysis

The avoided cost prices as filed are significantly lower than those currently in place, primarily due to lower natural gas prices, which in turn impact forward market electricity

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<sup>1</sup> Order No. 14-058 at 25-26.

<sup>2</sup> Order No. 14-114.

prices. During the sufficiency periods for non-renewable and renewable avoided costs, currently through 2023 for Pacific Power, standard avoided cost prices are set at the market price. Lower gas prices also result in reduced prices during the deficiency period for non-renewable avoided costs, which are based on the fixed and variable costs of a combined cycle combustion turbine.

Staff calculated the levelized costs for the current and proposed standard avoided cost prices for two of the six price streams<sup>3</sup> in Schedule 37, non-renewable baseload and renewable baseload, to illustrate the relative impacts of the proposed changes. The prices below represent the fixed payment streams of the on-and off-peak prices for 15 years, levelized at the Company's authorized rate of return, for the period 2016 through 2030.

	Non-renewable Baseload	Renewable Baseload
Current Schedule 37	\$48.40	\$62.10
Proposed Schedule 37	\$39.31	\$56.62
Change	-18.8%	-8.8%

On May 27, 2015, Staff notified Docket No. UM 1610 parties that the May 1 updates had been filed, that Staff intended to place the filings on the June 23, 2015 public meeting agenda, and that comments could be filed. Renewable Energy Coalition (REC) filed comments on June 4, 2015 regarding the avoided cost updates filed by Pacific Power, Idaho Power Company, and Portland General Electric Company.

REC's comments specific to this filing address the effective date proposed by Pacific Power. The Company submitted its May 1 avoided cost price update as a tariff advice filing, with an effective date in 30 days, or June 1, 2015. REC explains that according to Order No. 14-058, the "utilities' annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing."<sup>4</sup> REC recommends that the Commission clarify that the annual updates to avoided costs will be effective 60 days from May 1 each year.<sup>5</sup>

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<sup>3</sup> The six standard avoided cost price streams are: 1) non-renewable baseload, 2) non-renewable wind, 3) non-renewable solar, 4) renewable baseload, 5) renewable wind, and 6) renewable solar.

<sup>4</sup> REC's Comments at 2.

<sup>5</sup> REC's Comments at 2.

The Commission explained in 2009 that avoided cost prices are not rates charged by the utilities for electric service, but rather rates paid by utilities to QFs.<sup>6</sup> Staff has consulted with Pacific Power and confirmed that in the future, avoided cost updates will not be submitted as tariff advice filings, and that the Company plans to amend its tariff to withdraw Schedule 37 and Schedule 38 (for QFs greater than 10 MW) from its tariff book. Future Pacific Power avoided cost updates will be filed under Docket No. UM 1729, and Staff will present the filings at a public meeting preceding the 60<sup>th</sup> day from the filing date.

With respect to Staff's recommended effective date of June 30, 2015, Pacific Power has notified Staff that it requests an effective date of June 24, 2015, the day following the public meeting. The Company states that June 24, 2015 complies with the language in Order No. 14-058 requiring that the avoided cost change go into effect within 60 days of May 1. Staff agrees with Pacific Power that an effective date immediately following the public meeting date meets the requirements in the Order, as does the June 30 date proposed by Staff. Staff considered both the Company's desire for a prompt avoided cost review and effective date, and the QFs' stated preference for a predictable date each year when prices will change.<sup>7</sup> Staff's position is that a fixed effective date is, on balance, preferable to annual effective dates that vary with the Commission's public meeting schedule. Therefore, Staff recommends an effective date of June 30.

Staff's review of Pacific Power's inputs and calculations of the updated avoided costs did not identify any concerns, and no party raised objections to the revisions to Schedule 37 other than the effective date. Staff concludes that the filing meets the requirements contained in Order No. 14-058, and that the avoided cost prices are reasonable.

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<sup>6</sup> Order No. 09-427 at 3.

<sup>7</sup> REC comments at 2:

"...the most important issue for QFs is not the exact date that the Commission selects for avoided cost rates to become effective, but that the Commission set a specific date that allows sufficient time for staff and interested parties to review the filing, and QFs to plan their contract negotiation process to finish before rates change.

Setting an exact date upon which avoided cost rates will become effective is critical to ensuring that there is "a settled and uniform institutional climate for the qualifying facilities in Oregon." See ORS § 758.515(3)(b). The utilities' avoided cost rate schedules have specific timelines and dates for completing a contract. QFs often start negotiations based upon the timelines in the utilities' rate schedules so that they can obtain a contract before the new avoided cost rates become effective. Knowing that avoided cost rates will become effective in a specific number of days provides invaluable assistance to the QFs in the contract completion process. Providing this clarity will also help reduce potential disputes about whether a contract or legally enforceable obligation was entered into and whether a QF's reasonable expectations were disrupted."

**PROPOSED COMMISSION MOTION:**

Pacific Power's annual update to Schedule 37, Avoided Cost Purchases from Qualifying Facilities (QFs) 10,000 kW or Less be allowed to go into effect on June 30, 2015.