

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1610

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Investigation into Qualifying Facility
Contracting and Pricing.

Post-Hearing Brief of Renewable
Northwest Project

When the Public Utilities Regulatory Policy Act of 1978 (“PURPA”) works well, it promotes risk-mitigating diversity in utility generating resources and markets for renewable resource expansion; it encourages competition; it stimulates development of local resources that avoid the risks and costs of long-range gas transportation and electric transmission; and it contributes to meeting utility load needs in smaller increments, preserving options in a transitional time for the electric sector. When PURPA works poorly, it either fails to create hospitable conditions for any local resource development or—on the other side of the spectrum—it overwhelms utilities with new contracts. The Public Utility Commission of Oregon (“Commission”) has created a system that works, and it can keep its PURPA implementation on target by resisting fundamental changes and making balanced adjustments around the edges.

Renewable Northwest Project’s (“RNP’s”) Prehearing Memorandum adequately captured its specific positions relative to the Issues List. Rather than re-summarizing all of RNP’s positions on discrete issues, this Brief presents RNP’s overall view of how the Commission can maintain the balance between accurately estimating avoided costs and encouraging development of PURPA qualifying facilities (“QFs”).

To place this discussion in its legal context, a few principles bear repeating. States must calibrate PURPA rates to reflect the utility's avoided cost of incremental electricity generation.¹ A "minute-by-minute" equivalence of costs, however, is not required.² Approximations must be made, and the goal is for underestimations and overestimations to be in a reasonable balance.³ While states may not simply insert environmental externalities into avoided cost rates, states are authorized to provide QFs with rate adders that match actual expected costs that QF purchases allow utilities to avoid (*e.g.*, transmission or distribution upgrade costs that can be avoided by adding QFs).⁴

Within that context, RNP urges the Commission to maintain its existing, successful PURPA structure and presents a framework for the Commission to consider balanced, marginal adjustments in this docket.

Fundamentals of the existing PURPA structure and framework for new adjustments

In RNP's view, three fundamental elements of Oregon's existing PURPA structure are key to its continued successful functioning: (1) availability of published rates and standard contracts below 10 MW, which creates a predictable target for diverse resource types to develop toward;⁵ (2) attention to utility resource needs, achieved by adjusting pricing to reflect periods of resource sufficiency and deficiency; and (3) consistency with assumptions in utility integrated resource plans ("IRPs"), which can be scrutinized with

¹ 18 C.F.R. 292.304(d).

² See FERC Statutes and Regulations, Regulations Preambles 1977-1981, 30,128, at 30,881, 45 Fed. Reg. 12,214 (Feb. 25, 1980) ("FERC Order No. 69") ("The Commission does not believe that the reference in the statute to the incremental cost of alternative energy was intended to require a minute-by-minute evaluation of costs which would be checked against rates established in long term contracts between qualifying facilities and electric utilities.")

³ See *id.*

⁴ *California Public Utilities Comm'n*, 133 FERC 61,059, at paragraph 31 (October 21, 2010).

⁵ See, *e.g.*, ODOE/200/Elliott/2-6; ODOE/500/Elliott/2-4; CREA/100/Hilderbrand/11-13; CREA/200/Reading/28-30.

attention to issues fundamental to setting avoided cost rates. Maintaining these touchstones is critical. Useful, balanced adjustments can be made without imperiling these fundamental elements.

One adjustment can benefit the Commission and all parties equally. The Commission should fix a reasonably frequent, well-defined schedule for updating published avoided cost rates, and strictly limit off-cycle changes. RNP supports updating avoided cost rates no more frequently than annually, but is generally comfortable with updates following the IRP (for all assumptions) and IRP Update acknowledgment cycles (for relatively ministerial assumptions).⁶

Other potential adjustments fall into two classes: (1) those that address assertions that avoided cost rates are too *high* for the resource value delivered by QFs, or fail to capture certain offsetting *costs* associated with QFs; and (2) those that address assertions that avoided cost rates are too *low* to capture all the costs associated with the proxy resources, or fail to capture certain additional *benefits* uniquely associated with QFs. The Commission should seek to adopt adjustments that are structured fairly within themselves and that, in the aggregate, are balanced between QF costs and benefits. Here, RNP discusses adjustments within each of those two categories that it believes could be packaged into a successful equilibrium.

Addressing utility concerns about wind integration, disaggregation, and capacity value

If crafted fairly and balanced with adjustments that better recognize QF values, some of the following adjustments could be reasonable to address utility concerns.

⁶ See Staff/100/Bless/20; Staff/200/Bless/23; OneEnergy/200/Eddie/5.

Wind integration costs. While there is broad agreement that solar integration is not yet well enough understood to be incorporated into the PURPA scheme,⁷ RNP can support wind integration costs if the Commission mandates more robust review of cost studies and timely updates of gas and market assumptions.⁸ QFs should be allowed to self-supply within-hour balancing services by procuring them from another provider.⁹ If a QF chooses instead to have its output integrated by the purchasing utility, the QF should be allowed—but not required—to fix integration rates for the life of its contract.¹⁰

Disaggregation. Oregon’s method of preventing single large project developments from being “disaggregated” to secure published rates largely has been successful.¹¹ Yet by better defining and narrowing the UM 1129 Partial Stipulation’s “passive investor” exception, the Commission can further tighten its approach to preventing “disaggregation” while still promoting community investment in local projects.¹²

Capacity Value. RNP could support a rate adjustment for capacity contribution (*a.k.a.*, capacity value) if the Commission provided strong direction toward advancement in capacity value measurements *and* balanced the capacity value adjustment with defined

⁷ RNP/100/Lindsay/8-9; ODOE/400/Carver/4-5; OneEnergy/100/Eddie/32-33. *See also* Staff Prehearing Memorandum, at 10-11.

⁸ RNP/100/Lindsay/9-17; RNP/200/Lindsay/10-11. *See also* ODOE/100/Carver/10 (recommending evidentiary proceedings to set integration costs).

⁹ RNP/200/Lindsay/12; CREA/200/Reading/16-17; CREA/300/Svendsen/5; CREA/400/Hilderbrand/7.

¹⁰ Prehearing Legal Brief of the Community Renewable Energy Association, at 10 (explaining that rates in a QF’s long-term PPA should not be permitted to go down after the time of contract or legally enforceable obligation).

¹¹ RNP/100/Lindsay/6. *See also* PacifiCorp/202 (Partial Stipulation); PAC/200/Griswold/24 (listing only one Oregon disaggregated project); Idaho Power/200/Stokes/62 n.54 (explaining that Idaho lacked Oregon’s partial stipulation).

¹² Several parties have supported eliminating the passive investor exception, except for family or community projects. *See* PAC/200/Griswold/200. RNP supports CREA’s position that the Commission could instead adopt the Internal Revenue Service definition of passive investor. *See* CREA/400/Hilderbrand/9.

adjustments benefitting QFs (particularly, longer fixed contract terms).¹³ RNP is hesitant to support capacity value adjustment because it would be a large pricing change based on a number whose methodology and conceptual underpinnings are sharply disputed.¹⁴ Methodological improvements and an improved QF development structure (levelization and longer contracts) provide critical balance to this proposed adjustment.

Addressing QF concerns that costs of proxy and benefits of QF are inadequately valued

Any of the above adjustments to address utility concerns should be balanced with the following measures to better recognize QF values.

Line loss adders. Resources located close to load deliver more of the energy they generate, and they should receive an accordingly higher level. OneEnergy reasonably recommends that QFs connected at distribution voltage and sized 3 MW or smaller receive a 3.9% “check the box” adder for avoided line losses.¹⁵

Full modeled IRP costs. In keeping with the fundamental connection between utility IRPs and avoided costs, the Commission should require consistency between the IRP treatment and the avoided cost treatment of proxy resources. If an IRP model adds incremental transmission or gas transportation costs to a resource location, for instance, then the location of the proxy should be identified and should incur equivalent costs.¹⁶

Recognition of other avoided cost categories. RNP firmly supports consideration of values like deferral of generating resource additions (*i.e.*, the costs of “lumpiness” that small resource additions avoid), deferral or avoidance of incremental transmission costs,

¹³ See RNP/200/Lindsay/1.

¹⁴ Compare RNP/200/Lindsay/2-6 and ODOE/100/Carver/7-8 with PAC/300/Dickman/14.

¹⁵ OneEnergy/100/Eddie/36-37; ODOE/400/Carver/5-6; RNP/200/Lindsay/15-16.

¹⁶ See, *e.g.*, OneEnergy/200/Eddie/15 (regarding site-specific gas inputs); OneEnergy/200/Eddie/8 (regarding IRP transmission costs of PacifiCorp’s renewable proxy).

and avoided fuel price volatility.¹⁷ This docket contains evidence that at least some of those costs are real for utilities and have been quantified by at least one utility.¹⁸ At the same time, RNP recognizes that utilities must continue to work with stakeholders to refine methods for quantifying these values, and that such work is ongoing. For now, those values may best be credited by making other changes in contract term and pricing structure to benefit QFs, as explained below.

Use of contract term and levelization to approximate benefits. Allowing levelized or partially levelized contracts with adequate security and increasing the term of fixed rate contracts from 15 to 20 years can improve QF development prospects at little increased cost or risk to utility ratepayers.¹⁹ Particularly as a way to credit QF values that have been demonstrated but for which quantification methodologies are still developing, and/or to offset capacity value pricing changes, RNP has recommended that the Commission adopt levelized or partially levelized contract options and longer fixed rate contracts.²⁰

Conclusion

Maintaining Oregon's fundamental PURPA structure, while selecting a balanced menu of marginal adjustments, is a reasonable response to the efforts of parties in this docket and to the proliferation of PURPA complaint dockets presented to the Commission in recent years. By sending a strong signal that it will continue to balance accurate avoided costs and encouragement of QF development, the Commission can help PURPA remain an

¹⁷ RNP/200/Lindsay/9 (citing CREA/200/Reading/23-25; OneEnergy/100/Eddie/22-30 and CREA/200/Reading/25- 28; OneEnergy/100/Eddie/12-15).

¹⁸ See CREA/200/Reading/25- 28; OneEnergy/100/Eddie/12-15.

¹⁹ See, e.g., OneEnergy/100/Eddie/39-40; OneEnergy/200/Eddie/19-21.

²⁰ RNP/200/Lindsay/8-10.

important policy to create diversity, resiliency, competition, and optionality for Oregon utilities.

RESPECTFULLY SUBMITTED this 17th day of June, 2013.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I served the foregoing POST-HEARING BRIEF OF RENEWABLE NORTHWEST PROJECT upon the following parties on the service list, via electronic mail, on June 17, 2013:

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