Portland General Electric Company
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PortlandGeneral.com

July 7, 2015

Via Electronic Mail
puc.filingcenter@state.or.us

Oregon Public Utility Commission
Attention: Filing Center
PO Box 1088
Salem OR 97308-1088

Re: UM 1610 -- INVESTIGATION INTO QUALIFYING FACILITY CONTRACTING AND PRICING

Attention Filing Center:

Enclosed for filing in Docket Number UM 1610 are Portland General Electric Company's Reply Testimony of Robert Macfarlane and John Morton.

If you have any questions or require further information, please call me at (503) 464-8718. Please direct all formal correspondence and requests to the following email address: pge.opuc.filings@pgn.com.

Sincerely,

Karla Wenzel
Manager, Pricing & Tariffs

KW/kr

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I. Introduction and Summary

Q. Please state your name, occupation and business address.

A. My name is Robert Macfarlane. I am a senior analyst in Pricing and Tariffs. My qualification appear in our Phase I direct testimony, Exhibit 100.

My name is John Morton. I am a specialist in Structuring and Origination. My qualifications also appear in our Phase I direct testimony, Exhibit 100.

Q. What is the purpose of your testimony?

A. Our testimony is in reply to the July 24, 2015 response testimony of other parties in UM 1610 regarding the nine issues established by the Administrative Law Judge on March 26, 2015.

Q. How is your testimony organized?

A. Our testimony is organized by issue as listed in Commission Order No. 15-130.

II. Discussion by Issue

Issue 1: Who owns the Green Tags during the last five years of a 20-year fixed PPA during which prices paid to the QF are at market?

Q. What was PGE's position on Issue 1 in opening and response testimony?

A. The utility should own the Green Tags for any renewable power purchase under renewable avoided costs during a period of resource deficiency, from the start of the resource deficiency period through the term of the power purchase agreement (PPA). In addition, QFs have the option to sign a 15-year fixed price PPA if they want to regain Green Tags after year 15.

Q. Does PGE continue to support this position?

A. Yes.

Issue 2: Should avoided transmission costs for non-renewable and renewable proxy resources be included in the calculation of avoided cost prices.

Q. What was PGE's position on opening and response testimony?

A. Avoided transmission costs should be included in the calculation of avoided cost prices only if transmission costs are truly avoided. PGE includes transmission costs because the avoided IRP resource is assumed to be off-system.

Q. Does PGE continue to support this position?

A. Yes.

Issue 3: Should the Commission revise the methodology approved in Order No. 14-058 for determining the capacity adder for solar QFs selecting standard renewable avoided cost prices? If so, how?

Issue 4: Should the capacity contribution calculation for the standard non-renewable avoided cost prices be modified to mirror any change to the solar capacity contribution calculation used to calculate the standard renewable avoided cost price?

Q. What is PGE's position on Issue 3?

A. The Commission was correct in approving the methodology for determining the capacity contribution adder for solar QFs in Order No. 14-058.

Q. Please summarize Staff's position on Issue 3.

A. Staff's position is the solar capacity contribution adder recommended in Phase I of UM 1610 and approved by the Commission in Order No. 14-058 should be modified to factor in the expected capacity factor of solar.

Q. How does Staff portray your testimony regarding Issue 3?

A. Staff/600 states, "PGE merely states that the methodology for the Standard Renewable Avoided Cost prices in Order No. 14-058 is correct and that the methodology for Standard Non-Renewable Avoided Costs prices should remain as is to be consistent with the Standard Renewable Avoided Costs prices." Staff is referring to PGE Exhibit 500. However, rather than repeating testimony previously included in this docket, PGE pointed to PGE Exhibit 400 which provided more extensive testimony on the issue.

Q. Please summarize that testimony?

A. The testimony discusses the Commission's simplified methodology for calculating avoided cost prices using on- and off-peak period and payment based on volumetric output or megawatt hours (MWh). In order to be consistent with this methodology as outlined in Order 05-584, applying the capacity percentage contribution of the QF resource type directly to the on-peak $/MWh is appropriate. The testimony also discusses that it is inappropriate to spread the proxy capital costs using the capacity factor of the QF and that the capacity adder should not be paid as a fixed dollar amount.

Q. Do you agree with Staff that the payment structure approved by the Commission in Order No. 14-058 needs to be revised?

A. No. Using Staff's proposed methodology, to the extent that the capacity factor of the utility solar resource included in the IRP is greater than the capacity contribution percentage of solar, the price in $/MWh can exceed the avoided cost price paid to base load QFs.

In addition, some QFs may receive payments for capacity that exceed avoided cost. Staff's proposed method uses the capacity factor of a solar resource included in the IRP. The capacity costs are spread over a small number of on-peak hours. As the output from the QF varies, the amount paid to the QF varies. If the QF has a capacity factor greater than that of the IRP solar resource, the utility will pay more than avoided cost for that capacity.

Q. Does the proxy gas plant, on which avoided costs are based, provide capacity benefits that are not provided by a solar QF?

A. Yes. PacifiCorp summarized these points in PAC/1100 as:

> *The proxy thermal resource provides several benefits to the utility that are not provided by a solar QF, including the ability to dispatch the resource on an as needed basis and the ability to provide operating reserve capacity. These benefits are available to the Company in all hours, not just when the resource is generating energy.*

Q. **Should the methodology for determining the capacity contribution adder for solar QFs remain as approved in Order No. 14-058?**

A. Yes. The approved methodology provides an appropriate adjustment to the $/MWh price by directly applying the solar capacity contribution percentage to the $/MWh capacity value.

The methodology provides an appropriate adjustment and creates prices that do not exceed avoided cost. This methodology should not change.

Q. Should the methodology for determining the capacity contribution adder for solar QFs approved in Order No. 14-058 be used for both adjustment in both the renewable and non-renewable avoided cost?

A. Yes.

Issue 5: What is the appropriate forum to resolve litigated issues and assumptions?

Q. Please summarize PGE's position on Issue 5?

A. The Commission's rules and processes allow parties ample opportunity to resolve issues related to the assumptions used in avoided cost filings. Any parallel or additional process to the IRP and avoided cost filing is unnecessary and would lead to results that are inconsistent with the IRP. Parties already have the ability to challenge inputs and assumptions in the IRP process and the avoided cost filing. Minimum filing requirements (MFR) are unnecessary as PGE already provides the information and the parties have the ability to request additional information through the discovery process.

Q. Does PGE continue to support this position?

A. Yes.

Issue 6: Whether the market prices used during the Resource Sufficiency Period sufficiently compensate for capacity?

Q. What is PGE's position on Issue 6?

A. No additional payment for capacity is warranted during the sufficiency period. PGE is capacity sufficient through the sufficiency period. A capacity payment during the sufficiency period results in prices that exceed the avoided cost of the utility.

Q. Does PGE continue to support this proposal?

A. Yes, no change to sufficiency period pricing is necessary. Our direct and response testimony adequately address this issue. We note that pricing issues in the standard contract were largely addressed in Phase I of this proceeding. The sufficiency and deficiency pricing methodologies work in tandem. To the extent that any change is made to the determination of avoided cost prices during the sufficiency period, PGE recommends that the deficiency period pricing methodology be examined as well.

Issue 7: What is the appropriate methodology for calculating non-standard avoided cost prices? Should the methodology be the same for all three electric utilities operating in Oregon?

Q. What is PGE's position on Issue 7?

A. PGE supports the use of the methodology established in Order No. 07-360, adjusting avoided costs for QF specific characteristics consistent with the seven factors outlined in 18 CFR 292.304(e)(2). In addition, PGE supports the use of production cost models used to set net variable power costs. While PGE has not employed production cost models to calculate non-standard avoided cost prices, the models are used annually in net variable power cost filings and are a reasonable tool to calculate timely and accurate avoided cost prices.

Issue 8: When is there a legally enforceable obligation?

Q. What is PGE's position on Issue 8?

A. PGE requests that the Commission set clear criteria establishing affirmative obligations for a QF to create a LEO. The contents and information required for a final executable draft contract should be the basis for determining that an unequivocal commitment by the QF has been made sufficient to establish a LEO. These required information and terms are readily set forth in PGE's Schedules 201, 202 and Commission-approved contracts, and are established through deadlines prescribed in the schedules. PGE supports PacifiCorp's and Staff's analogous Phase II opening and response testimony on this issue.

The expedited dispute resolution process established by the Commission and included in PGE's Schedule 202 address any disputes that occur prior to the final draft executable contract.

Issue 9: How should third-party transmission costs to move QF output in a load pocket to load be calculated for in the standard contract?

Q. What is PGE's position on Issue 9?

A. Whether the QF chooses a standard or negotiated PPA, the QF price should be adjusted to compensate the utility for third-party transmission costs that it incurs to deliver the QF's energy to load. This treatment is consistent with the PURPA requirement for an off-system QF to pay the transmission costs for delivering QF generation to the utility's system. If the price the QF is paid is not adjusted for third-party transmission to move QF output in a load pocket to load, then the utility pays a price higher than its avoided cost.

Q. Does this conclude your testimony?

A. Yes.