Portland General Electric Company
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April 29, 2013

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Oregon Public Utility Commission
Attn: Filing Center
550 Capitol St NE Ste. 215
PO Box 2148
Salem, OR 97308-2148

RE: UM 1610 – INVESTIGATION INTO QUALIFYING FACILITY CONTRACTING AND PRICING

Attention Filing Center:

Enclosed for filing in UM 1610 are an original and five copies of:

Reply Testimony Portland General Electric Company:

- **PGE Exhibit 300 Macfarlane / Morton**

This document is being filed by electronic mail with the Filing Center. Hard copies to the Filing Center will be sent via US Mail. An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it in the envelope provided.

This document is being served electronically upon the UM 1610 service list.

Sincerely,

Jay Tinker

Jay Tinker
Director, Regulatory Policy & Affairs

JT:smc
encl.

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

UM 1610
Investigation into Qualifying Facility Contracting and Pricing

PORTLAND GENERAL ELECTRIC COMPANY

Reply Testimony of

Robert Macfarlane
John Morton

Portland General Electric

April 29, 2013

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I. Introduction and Summary

Q. Please state your name and position with Portland General Electric Company (PGE).

A. My name is Robert Macfarlane. I am an analyst in Pricing and Tariffs. My qualifications appear in our Direct Testimony, Exhibit 100.

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

Q. What is the purpose of your testimony?

A. Our reply testimony responds to the testimony of other parties in UM 1610. We provide revised positions on several issues in response to other parties. Unless we note a change in position, we defer to the positions and arguments made in our direct testimony.

Q. Please summarize your key recommendations and proposals.

A. Issue 1: Avoided Cost Price Calculation

Issue .1Ai. – Should the Commission retain the current method based on the cost of the next avoidable resource identified in the company's current IRP, allow an "IRP" method based on computerized grid modeling, or allow some other method?

PGE POSITION: Recommend retaining the current method based on the cost of the next avoidable resource in the Company's current integrated resource plan (IRP).

Issue 1.Aii. – Should the methodology be the same for all three electric utilities operating in Oregon?

PGE POSITION: To the extent practical.

Issue 1.B. – Should QFs have the option to elect avoided cost prices that are levelized or partially levelized?

PGE POSITION: No. Levelized prices should not be available to qualifying facilities (QF).

Issue 1.C. – Should QFs seeking renewal of a standard contract during a utility's sufficiency period be given an option to receive an avoided cost price for energy delivered during the sufficiency period that is different than the market price?

PGE POSITION: No. Renewing QFs should be subject to a new sufficiency period.

Issue 1.D. – Should the Commission eliminate unused pricing options?

PGE POSITION: Yes. Unused pricing options should be eliminated.

Issue 2: Renewable Avoided Cost Price Calculation

Issue 2.A. – Should there be different avoided cost prices for different renewable generation sources? (for example, different avoided cost prices for intermittent vs. baseload renewables; different avoided cost prices for different technologies: such as solar, wind, geothermal, hydro, and biomass).

PGE POSITION: Avoided costs should be based on the resource the utility is avoiding. However the price should be adjusted for the capacity contribution to peak load based on the type of resource and for integration.

Issue 2.B. – How should environmental attributes be defined for purposes of PURPA transactions?

PGE POSITION: Industry-standard WSPP Agreement definition should be used. PGE is willing to amend the WSPP definition to exclude non-generation attributes of a biomass facility.

Issue 2.C. – Should the Commission amend OAR 860.022.0075, which specifies that the non-energy attributes of energy generated by the QF remain with the QF unless different treatment is specified by contract?

PGE POSITION: No. The rule contains flexible language and an amendment is not necessary.

Issue 3: Schedule for Avoided Cost Price Updates

Issue 3.A. – Should the Commission revise the current schedule of updates at least every two years and within 30 days of each IRP acknowledgement?

PGE POSITION: PGE recommends annual updates to avoided cost prices. As part of this update, utilities should be able to capture the most recent gas and electricity prices, plus any changes that occur in a Commission-acknowledged IRP or IRP update.

Issue 3.B. – Should the Commission specify criteria to determine whether and when mid-cycle updates are appropriate?

PGE POSITION: No. Instead of creating specific criteria, Commission flexibility should be retained.

Issue 3.C. – Should the Commission specify what factors can be updated in mid-cycle? (such as factors including but not limited to: gas price, or status of production tax credits).

PGE POSITION: No. Commission flexibility should be retained.

Issue 3.D. – To what extent (if any) can data from IRPs that are in the late stages of review and whose acknowledgement is pending be factored into the calculation of avoided cost prices?

PGE POSITION: Commission flexibility should be retained.

Issue 3.E. – Are there circumstances under which the Renewable Portfolio Implementation Plan should be used in lieu of the acknowledged IRP for purposes of determining renewable resource sufficiency?

PGE POSITION: No. The acknowledged IRP should be retained as the method for determining resource sufficiency, as decided in Order no. 11-505.

Issue 4: Price Adjustments for Specific QF Characteristics

Issue 4.A. – Should the costs associated with integration of intermittent resources (both avoided and incurred) be included in the calculation of avoided cost prices or otherwise be accounted for in the standard contract? If so, what is the appropriate methodology?

PGE POSITION: Yes. In the interest of obtaining an accurate avoided cost calculation and ensuring a fair balancing of interests between utility customers and the QF, costs associated with integration of variable energy (intermittent) resources should be included as a standard adjustment in the calculation of avoided cost prices: sometimes as an addition, and sometimes as a subtraction.

Issue 4.B. – Should the costs or benefits associated with third party transmission be included in the calculation of avoided cost prices or otherwise accounted for in the standard contract?

PGE POSITION: The QF's transmission costs are the responsibility of the QF. PGE includes transmission costs in the calculation of avoided costs if the avoided resource is off system.

Issue 4.C. – How should the seven factors of 18 CFR 292.3047(e)(2) be taken into account?

PGE POSITION: Price adjustments are allowed by FERC in standard avoided cost prices. The recommended price adjustments would account for capacity contributions to peak load by different types of QFs. The on-peak and off-peak differential should be removed from the renewable avoided cost in the deficiency period if capacity adjustments are approved.

Issue 5: Eligibility Issues

Issue 5.A. – Should the Commission change the 10MW cap for the standard contract?

PGE POSITION: Yes. We support a 1MW cap if price adjustments to the standard contract for integration and capacity are adopted. If they are not, the eligibility cap should be reduced to 100kW, consistent with the federal cap.

Issue 5.B. – What should be the criteria to determine whether a QF is a "single QF" for purposes of eligibility for the standard contract?

PGE POSITION: PGE agrees with and incorporates by reference PaciCorp's direct testimony on this issue (PAC/200, Griswold/25-26).

Issue 5.C. – Should the resource technology affect the size of the cap for the standard contract cap or the criteria for determining whether a QF is a "single QF"?

PGE POSITION: Resource technology should not affect the standard contract eligibility cap.

Issue 5.D. – Can a QF receive Oregon's Renewable avoided cost price if the QF owner will sell the RECs in another state?

PGE POSITION: During the sufficiency period, the QF controls the RECs and can do with them as they wish. During the deficiency period, the RECs should be transferred to the utility in exchange for the renewable avoided cost price.

Issue 6: Contracting Issues

Issue 6.A. – When is there a legally enforceable obligation?

PGE POSITION: Not more than one year before the QF has or will have power available or a demonstrated construction period if longer than one year. PGE also supports Staff and PacifiCorp's proposal that an LEO can be established when a QF commits to the final executable draft contract.

Issue 6.B. – How should contracts address mechanical availability?

PGE POSITION: 91% availability in year 1, 95% availability in year 2 – end of contract. 200 hours per year per turbine of planned maintenance. Minimum delivery percentage of 40%, liquidated damages and termination applied as described in testimony.

Issue 6.C. – What is the appropriate contract term? What is the appropriate duration for the fixed price portion of the contract?

PGE POSITION: For new and/or repowered facilities, a term of 20 years (with 15 year fixed pricing) is appropriate. For renewing QFs, 5 years is appropriate.

Q. Does PGE have more than one basis for avoided costs?

A. Not yet. PGE filed its renewable and updated standard avoided costs pursuant to OPUC Order 11-505, with the Commission in UM 1396 in March 2012 and awaits the Commission's approval of our Schedule 211 (renewable avoided cost application).[1] Consistent with the Order, PGE's renewable avoided cost uses market prices during the period of renewable resource sufficiency and the next utility scale renewable resource identified in our integrated resource plan (IRP) during the period of resource deficiency. In addition, we have standard avoided costs reflected in Schedule 201, based on Commission Order No. 05-584, and use market prices during the period of resource sufficiency and a gas combined cycle combustion turbine (CCCT) during the period of resource deficiency.

Q. How do you distinguish the two different avoided costs in your testimony?

A. In this testimony, we refer to Schedule 201 and its basis outlined in Order No. 05-584 as the traditional avoided cost. We refer to Schedule 211 and its basis outlined in Order No. 11-505 as the renewable avoided cost.

Q. How is your testimony organized?

[1] http://edocs.puc.state.or.us/efdocs/HAD/um1396had114323.pdf

A. Our testimony follows the issues list in this docket:

II. Avoided Cost Price Calculation;

III. Renewable Avoided Cost Price Calculation;

IV. Schedule for Avoided Cost Price Updates;

V. Price Adjustments for Specific QF Characteristics;

VI. Eligibility Issues; and

VII. Contracting Issues.

II. Avoided Cost Price Calculation

Issue 1.A. – What is the most appropriate methodology for calculating avoided cost prices?

Issue 1Ai. – Should the Commission retain the current method based on the cost of the next avoidable resource identified in the Company's current IRP, allow an "IRP" method based on computerized grid modeling, or allow some other method?

Q. Are the parties in agreement as to the appropriate method to calculate avoided costs?

A. For standard contract pricing and with the exception of Idaho Power, yes.

Staff recommends keeping the current methods established in Commission Order Nos. 05-584 and 11-505, with two price adjustments. The first price adjustment is for capacity based on contributions to peak load by resource type (Staff/100, Bless/4). The second adjustment is for integration costs (Staff/100, Bless/6).

PacifiCorp recommends the current method for standard contracts and a model-based approach that captures resource-specific characteristics as they impact the utility's system for negotiated avoided cost prices (Exhibit PAC/100, Dickman/2).

The Renewable Energy Coalition (REC) and Community Renewable Energy Association (CREA) both recommend retaining the current method (Coalition/200, Schoenbeck/2 and CREA/200, Reading/8).

OneEnergy also recommends retaining the current method but claims that the utilities do not account for all of the costs associated with gas capacity and transmission (OneEnergy/100, Eddie, 21-22).

Q. Do you continue to recommend that the Commission retain the current method based on the cost of the next avoidable resource identified in the Company's current IRP?

A. Yes.

Q. Have you considered the standard price adjustments to account for the QF's contribution to meeting peak load?

A. Yes. Price adjustments to account for the QF's contribution to meeting peak load provide a meaningful way to address the concerns we have with regard to the mismatch between the characteristics of utility's avoided resource and the QF's resource. However, we recommend removing the on-peak and off-peak differential in the renewable avoided cost prices to reflect a flat price. We further discuss those adjustments in our discussion of Issue 4.C.

Q. Do you continue to recommend the adjustments for integration of variable energy resources as discussed in your direct testimony?

A. Yes. However, in noting that variable energy resources includes both solar and wind, we acknowledge that we have only a wind integration study available, and not a solar integration study. For that reason, we recommend the adjustments for wind QFs based on the wind integration study. For solar QFs, the adjustments should be made based on the utility developed solar integration study in its IRP. We further discuss integration adjustments in our discussion of Issue 4.A.

Issue 1.B. – Should QFs have the option to elect avoided cost prices that are levelized or partially levelized?

Q. In direct testimony, PGE stated that levelization of prices would lead to a blurring of the demarcation between the sufficiency and deficiency periods. Has PGE's view on the matter changed since the direct testimony?

A. No. PGE supports Staff (Staff/100, Bless/13) in its testimony that the fundamental arguments behind avoided cost price levelization have not changed since UM 1129, and therefore there should not be a change by the Commission in this docket. PGE continues to recommend not allowing levelization due to the harm it would cause customers via blurring the sufficiency and deficiency periods.

Further, as part of its argument for levelization, CREA (CREA/200; Reading/10) acknowledges that "levelized rates are fixed over the life of the contract, essentially resulting in overpayment in early years and underpayment in later years." PGE maintains that on the basis of both time value of money and risk of QF default, it should not be acceptable to force PGE customers into subsidizing QFs or otherwise bear the risk of stranded costs.

Q. In Coalition/100, Lowe/23, REC stated that "Levelization of prices may not be necessary at all if contract terms are adequately long such as 15-years, and existing projects continue to receive value for capacity when entering into a replacement power purchase agreement." Does PGE agree with the characterization that

levelization is unnecessary as long as contracts are of a sufficient length and capacity payments continue?

A. Yes, so long as the payments represent accurate avoided capacity costs reflecting the characteristics of the resource.

Issue 1.C. – Should QFs seeking renewal of a standard contract during a utility's sufficiency period be given an option to receive an avoided cost price for energy delivered during the sufficiency period that is different than the market price?

Q. Staff stated (Staff/100, Bless/13-14) that QFs should not be allowed to get deficiency period prices during a utility's sufficiency period. Mr. Bless recommends "retaining the current policy, in which the price schedule of a renewing contract begins with a new sufficiency period." What is PGE's view on this assertion?

A. PGE supports Staff testimony on this issue.

Q. In its testimony, CREA (CREA/200, Reading/13) states that "QF resources have not contributed to the utilities' short-term period of projected surplus and are currently receiving capacity payments as part of their contract. Therefore, they should not be penalized by receiving reduced payment for the period of projected surplus in their follow-up contract." Does PGE have a response to CREA's testimony?

A. PGE relies on Commission Order No. 05-584 in which the Commission concluded: "that the contract term length minimally necessary to ensure that most QF projects can be financed should be the maximum term for standard contracts." (Order No. 05-584; page 19). Providing deficiency period prices during the sufficiency period would undermine this decision and require utility customers to pay an artificially high avoided cost price.

Further, in a situation where a QF is renewing, removing the sufficiency period pricing undermines the previous contract term.

Issue 1.D. – Should the Commission eliminate unused pricing options?

Q. The CREA testimony (CREA/200; Reading/14) recommends that the Commission should eliminate the unused pricing options of gas market index and banded gas market index options, so long as these options would be available to any interested QF. Does PGE agree with CREA's position?

A. No. PGE supports the discontinuation of unused pricing options and not having them available to any party. The Commission should not take the approach suggested by CREA to eliminate the option as to the utility but then leave it available to QFs upon request. PGE reaffirms its recommendation that the unused pricing options be eliminated, and not made available to any party.

III. Renewable Avoided Cost Price Calculation

Issue 2.A. – Should there be different avoided cost prices for different renewable generation sources?

Q. Does PGE recommend adjustments specific to the renewable avoided cost generation source?

A. No. However, we support standard price adjustments for capacity and integration applied to both the traditional and renewable avoided cost prices.

Issue 2.B. – How should environmental attributes be defined for purposes of PURPA transactions?

Q. Does PGE continue to support the same definition of environmental attributes proposed in its direct testimony?

A. Yes, with one exception. In PGE's opening testimony (Macfarlane – Morton / 15) PGE proposes to use the industry-standard WSPP Agreement definition of Environmental Attributes in both our schedule and QF power purchase agreements. The WSPP definition would be used to define what attributes are transferred to the utility during the deficiency period of a renewable avoided cost QF agreement, and similarly, what attributes are retained by QFs during either the sufficiency period or in the case of a non-renewable avoided cost QF agreement. After discussions with the parties, PGE is aware of a potential issue with respect to environmental attributes created by biomass facilities that are not related to the generation of electricity. PGE is amenable to changing the WSPP definition to allow QFs to retain such attributes that are not related to the generation of electricity. In any case, PGE contends that all environmental attributes associated with the actual generation of electricity should be transferred to the utility during the deficiency period when a QF chooses the renewable avoided cost. This approach aligns the characteristics of the avoided renewable resource pricing, which includes all non-energy attributes associated with generation, with the renewable QF.

Issue 2. C.– Should the Commission amend OAR 860-022-0075, which specifies that the non-energy attributes of energy generated by the QF remain with the QF unless a different treatment is specified by the contract?

Q. Does PGE recommend that the Commission amend OAR 860-022-0075?

A. No. The rule contains flexible language and its amendment is not necessary.

IV. Schedule for Avoided Cost Price Updates

Issue 3.A. – Should the Commission revise the current schedule of updates at least every two years and within 30 days of each IRP acknowledgement?

Q. In OneEnergy's testimony (OneEnergy/100; Eddie/10), Mr. Eddie suggested that the update occur shortly after the US Energy Information Association releases the Annual Energy Outlook. Does PGE agree with this recommendation?

A. PGE agrees with both OneEnergy and Staff (and multiple other parties) in recommending annual updates to avoided cost prices. We do not support OneEnergy's recommendation of a date that must align with the US Energy Information Associations release of the Annual Energy Outlook because it is not the basis of our gas price forecast. In the annual update, it is important that utilities be able to capture the most recent gas and electricity prices, plus any changes that occur in a Commission-acknowledged IRP or IRP update. PGE continues to recommend that only a Commission-acknowledged IRP or IRP update should determine sufficiency/deficiency periods.

Issue 3.B. – Should the Commission specify criteria to determine whether and when mid-cycle updates are appropriate?

Q. In direct testimony, PGE argued for Commission flexibility regarding the issue of mid-cycle updates. Has this view changed?

A. No, PGE has not changed its view. Commission flexibility is the ideal option. Further, PGE agrees with Staff's position in direct testimony that if there is an annual update cycle, it will eliminate the need for most mid-cycle updates.

Q. In REC's rebuttal testimony (Coalition/100; Lowe 7), Mr. Lowe contends that, notwithstanding update schedules, the utilities have proposed updates outside the established process and references utility responses to data requests. Does PGE wish to address this allegation?

A. Yes. Mr. Lowe is referring to PGE's response to REC Data Request No. 003. REC asks for the "date of each advice filing to change avoided cost prices." Since Order No. 05-584, all such PGE advice filings have been either compliance filings, made within 30 days of an acknowledged IRP, or made at two years since the last update.

In a data request from PGE to REC, PGE asked Mr. Lowe to identify the PGE avoided cost filings that he deemed inappropriate and/or outside of the established process. See Exhibit 301 (PGE DR 004). REC declined to identify any specific filings, responding: "REC objects to the extent the question asks for a legal opinion or legal research. The cases and outcomes speak for themselves. Mr. Lowe is giving his opinion based on his over 30 years of experience in the industry."

In short, there is no basis for REC's contention; PGE has not made mid-cycle updates to lower avoided cost rates (based on falling prices) since Order No. 05-584.

Issue 3.C. – Should the Commission specify what factors – such as gas price or status of production tax credit – can be updated in mid-cycle?

Q. During the direct testimony phase, PGE asserted that Commission flexibility – rather than a set of factors and/or criteria that may be updated – would be best. Has PGE's opinion changed?

A. No. PGE continues to recommend Commission flexibility. PGE supports Staff testimony (Staff/100; Bless/21) noting there may be little need for mid-cycle updates (if an annual update schedule was adopted), and thus little need to specifically identify the factors subject to a mid-cycle update.

Issue 3.D. – To what extent can data from IRPs that are in the late stages of review and whose acknowledgement is pending be factored into the calculation of avoided cost prices?

Q. Does PGE change its position on updating avoided costs based on IRPs in late stages of review?

A. No. Again, we recommend Commission flexibility and note Staff's position. In Staff testimony (Staff/100; Bless/21), Mr. Bless states, "[s]taff does not recommend that the Commission attempt to identify in advance whether there are any circumstances that may warrant an exception to any schedule for updates decided in this docket."

Issue 3.E. – Are there circumstances under which the Renewable Portfolio Implementation Plan should be used in lieu of the acknowledged IRP for purposes of determining renewable resource sufficiency?

Q. In the direct testimony presented in this docket, PGE argued that there are no circumstances under which the Renewable Portfolio Implementation Plan (RPS) should be used instead of the acknowledged IRP for purposes of determining renewable resource sufficiency. Have PGE's views changed since the direct testimony?

A. No. PGE strongly recommends that the Commission continue Order 11-505 and keep the acknowledged IRP as the method for determining resource sufficiency.

V. Price Adjustments for Specific QF Characteristics

Issue 4.A. – Should the costs associated with integration of intermittent resources (both avoided and incurred) be included in the calculation of avoided cost prices or otherwise be accounted for in the standard contract? If so, what is the appropriate methodology?

Q. Does PGE continue to support standard price adjustments associated with the integration of variable energy (intermittent) resources?

A. Yes. As we indicated in direct testimony (PGE/100, Macfarlane – Morton/19-21), price adjustments for variable energy resource QFs helps to obtain an accurate avoided cost calculation and ensuring a fair balancing of interests between utility customers and QFs.

Q. Did PGE prepare a table that explains the proposed standard adjustments for integration?

A. Yes, please see Table 2 on UM 1610/PGE/100, Macfarlane – Morton/20. In the column labeled Avoided Cost Basis, the description "Firm or Base Load" applies to the following: (1) the sufficiency period in both traditional and renewable avoided costs, and (2) the deficiency period in the traditional avoided cost, which is based on a proxy CCCT. The description "Variable" applies to the deficiency period in the renewable avoided cost.

Q. Do you propose any changes from your direct testimony proposal?

A. No.

Q. Is integration only a decrease to avoided cost prices for variable energy resource QFs?

A. No. Under the renewable avoided cost, a variable energy resource QF that provides integration into the purchasing utility's system receives a higher price during the deficiency period. This is due to the fact that the avoided resource under the renewable avoided cost, currently identified in our IRP as a wind plant, provides variable energy. Our renewable avoided cost prices do not include integration. If the QF provides integration, then it is appropriate to compensate the QF based on the utility's avoided integration cost.

Q. May other types of QFs also receive a price adder for integration under your proposal?

A. Yes. Base load QFs receive a premium during the deficiency period if they qualify for and choose the renewable avoided cost. Base load generation doesn't require integration. However, the wind plant avoided by the utility requires integration. Thus, the base load QF provides an additional benefit in the form of avoided integration.

Q. When is a decrease necessary for integration?

A. Under PGE's proposal, the avoided cost price is reduced for variable energy resource QFs that do not provide integration during: (1) the sufficiency period in both traditional and renewable avoided costs, and (2) the deficiency period in the traditional avoided cost. Variable energy resource QFs that provide partial integration only receive a price reduction for the portion of integration that the QF does not provide during the deficiency period in the traditional avoided cost.

Q. Why is it necessary to include a price adjustment for integration?

A. It is necessary to have price adjustments for integration because integration of a generation resource is a cost to the utility. Price adjustments for QF specific characteristics are allowed under PURPA. For further discussion, see our response to Issue 4.C. in our direct testimony.

Issue 4.B. – Should the costs or benefits associated with third party transmission be included in the calculation of avoided cost prices or otherwise accounted for in the standard contract?

Q. OneEnergy argues that the utilities do not include investments in gas supply infrastructure and electricity transmission in avoided cost prices. Does PGE include those costs in its avoided cost calculations?

A. Yes. PGE assumes the avoided resource is outside of our balancing authority and that the transmission of electricity is necessary. We include BPA wheeling costs in our avoided cost calculations. The cost of any gas supply infrastructure is also considered as part of the capital costs in our traditional avoided cost model.

Q. Is the cost of electricity transmission included in PGE's avoided cost calculations?

A. Yes. We assumed that the avoided resource is out of system and include BPA wheeling in the avoided cost.

Q. Was your bid in the base load request for proposal (RFP), Carty CCCT, the basis of your avoided cost calculations?

A. No. The assumptions used in our avoided cost calculations are based on our IRP. For our IRP, we requested cost information from Black and Veatch.

Q. OneEnergy identifies a $54 million gas lateral that your gas transmission provider filed with FERC for your Carty CCCT as an example of avoided costs not included in your traditional avoided cost calculation. If Carty had been used to calculate PGE's traditional avoided cost prices, would it be appropriate to increase the capital costs by $54 million?

A. No. That is an investment made by the transmission provider. If the cost were included, it would result in "double counting" the expense. PGE pays the cost of fixed gas transportation separately.

Q. Did PGE include fixed gas transportation in the traditional avoided cost calculation for the prices currently in effect?

A. Yes.

Q. What is your recommendation with regard to OneEnergy's contentions regarding gas supply infrastructure and electricity transmission?

A. The salient point here is that PGE is consistent with our IRP and that we include the costs of gas supply infrastructure and electricity transmission. OneEnergy's questions are more appropriate for consideration in the compliance filing review of avoided costs filed by each utility.

Issue 4.C. – How should the seven factors of 18 CFR 292.304(e)(2) be taken into account?

Q. In direct testimony, Staff recommends price adjustments to be used in standard avoided cost prices. The recommended price adjustments would account for capacity contributions to peak load by different types of QFs. Do you agree with Staff's recommendation?

A. Yes. Staff Exhibits 102 and 103 are reasonable. The price adjustments account for the characteristics of the QF and more closely approximate the true avoided cost for standard contract prices. We note that the price adjustments are likely subtractions in the traditional avoided cost model, and additions in the renewable avoided cost model.

Q. If Staff's proposal is adopted, is it appropriate to provide an on-peak and off-peak price differentiation in the renewable avoided cost?

A. No. PGE's intent, with the renewable avoided cost filing made in UM 1396, was to provide an on-peak and off-peak differential to provide a higher payment to QFs that produce more energy during the on-peak period, such as solar and biomass.

Q. Why is it inappropriate to apply on-peak and off-peak price differentials and a capacity adjustment to the renewable avoided cost prices?

A. For several reasons. First, PGE's on-peak and off-peak differential is based on our AURORA model, which provides hourly prices for the marginal resource. Capacity is sometimes included in that marginal resource. In addition, the QF is also likely to receive compensation for integration. Last, in the traditional avoided cost model, the on-peak and off-peak price differential is based on capacity. The energy price is flat. Providing the combination of a capacity adjustment, an integration adjustment, and on-peak and off-peak price differential based on AURORA overcompensates the QF; it is not within the spirit and intent of PURPA, which says that rates paid to QFs are just and reasonable to consumers and reflect no greater than the incremental cost that the utility would have otherwise incurred to generate or purchase the power supplied by the QF.

VI. Eligibility Issues

Issue 5.A. – Should the Commission change the 10 MW cap for the standard contract?

Q. Does PGE continue to recommend a 100 kW eligibility cap for the standard contract?

A. It depends. If standard price adjustments for capacity and integration are authorized for the standard contracts as recommended by Staff, PGE recommends that the Commission reduce the current 10 MW cap to 1 MW. If the adjustments are not adopted, PGE continues to recommend a 100 kW eligibility cap for the standard contract for the reasons outlined in our direct testimony.

Q. Why doesn't PGE support a 10 MW eligibility cap for the standard contract if the standard price adjustments for capacity and integration are adopted?

A. We support a 1MW cap if such adjustments are adopted; we recognize that adjustments for capacity and integration are a significant step in accounting for characteristics of the QF and providing more accurate avoided cost prices. However, the price adjustment for capacity is standardized and does not reflect all of the characteristics of the QF. It's based on the resource technology, and not the specific QF. Two solar QFs, for example, may have very different capacity factors based on their geographic location and solar panel selection, tilt, etc. In addition, there are other QF characteristics not accounted for in these standard adjustments such as dispatchability, the ability of the utility to coordinate maintenance, and other contract terms that are fixed in the standard contract.

Issue 5.B. – What should be the criteria to determine whether a QF is a "single QF" for purposes of eligibility for the standard contract?

Q. Does PGE continue to support the "single QF" criteria outlined in your direct testimony for purposes of eligibility for the standard contract?

A. No. PGE agrees with and incorporates by reference PaciCorp's direct testimony on this issue (PAC/200, Griswold/25-26).

Issue 5.C. – Should the resource technology affect the size of the cap for the standard contract cap or the criteria for determining whether a QF is a "single QF"?

Q. Should the resource technology affect the size of the cap for the standard contract cap or the criteria for determining whether a QF is a "single QF"?

A. No. The resource technology should not affect the cap. As set forth in PGE's direct testimony (PGE/100, Macfarlane – Morton/11), the demarcation between small and large QFs should be set at 100kW if price adjustments are not allowed in the standard contract. This threshold would prevent disaggregation concerns, help achieve contract prices that more accurately reflect avoided cost and the energy/capacity being received by the utility, and avoid a "land rush" since the current Oregon 10 MW threshold is much higher than 100 kW. This standard should apply to all resource technologies.

Issue 5.D. – Can a QF receive Oregon's Renewable Avoided Cost price if the QF owner will sell the Renewable Energy Credits (RECs) in another state?

Q. Were parties in agreement on this issue in testimony?

A. Yes. During the resource sufficiency period, the QF controls the RECs and can sell them at will.

VII. Contracting Issues

Issue 6.A. – When is there a legally enforceable obligation?

Q. Does PGE continue to support its legally enforceable obligation (LEO) views outlined in direct testimony?

A. Yes. PGE continues to support a rule that no legally enforceable obligation may be created more than one year before the QF has or will have power available or a demonstrated construction period if longer than one year. This rule is necessary to avoid gaming and align payments to the QF with actual avoided costs. If long delays between the establishment of a LEO and delivery of energy are allowed, then a QF may lock down rates and avoid updates to filed avoided costs that may affect the pricing. PGE believes that one year is a reasonable accommodation to allow for financing and most construction. In the event construction would take longer than a year, PGE proposes to allow the QF to provide evidence that longer than a year is required for actual construction. This could be done by providing an executed construction contract evidencing a longer than one year construction schedule.

After reviewing the Parties' initial testimony, PGE also supports proposals by PacifiCorp and Staff that the Commission set criteria for establishing a legally enforceable obligation using the final executable draft contract as the basis for potential commitment by the QF. The terms of a QF agreement prior to the utility providing a final draft are not sufficiently known and clear for the QF to make such a commitment. This is especially true for negotiated contracts. Under guideline 4 in Order No 07-360, the specified energy and term as well as security, default, damage and termination provisions have to be negotiated. Under PGE's Schedule 202 governing negotiated QF agreements, information necessary to establish these terms and conditions is still exchanged until a final draft is issued by the utility in Step 7. At that point, the terms and conditions are known such that a QF may commit. Concerns about the utility's ability to delay or avoid execution of the agreement are mitigated by the specific timelines contained in Schedule 202, the expedited dispute resolution process established by the Commission, and the requirement that PGE "not unreasonably delay negotiations and respond in good faith to any additions, deletions or modifications to the draft Negotiated Agreement that are proposed by the Seller."

Issue 6.B. – How should contracts address mechanical availability?

Q. In direct testimony, PGE proposed a graduated availability requirement of 91% in year one, 95% in year two through the end of the contract. The QF would be

afforded 200 hours per year in planned maintenance per turbine, and "downtime" would be calculated on a turbine-by-turbine basis, meaning that if one turbine was down, the entire facility would not be considered down. Does PGE continue to support these provisions?

A. Yes

Q. In the workshop on April 2, 2013, Staff inquired into PGE's willingness to adopt a liquidated damages provision to enforce the availability guarantee. Is PGE open to that?

A. Yes. PGE is open to moving toward a liquidated damages system more similar to what PacifiCorp currently employs. The proposed liquidated damages thresholds would be as follows:

If a QF were to drop below the availability guarantee (91% in year one, 95% in year two to the end of contract; not counting the 200 planned maintenance hours per turbine) for one year, liquidated damages would be triggered. If the QF fails to meet the availability for a second consecutive year, the contract may be terminated at PGE's discretion. If a QF drops below the minimum delivery threshold (40%) in any year, the contract may be terminated at PGE's discretion.

PGE intends to present precise wording in the agreement in a compliance filing.

Q. What liquidated damages provisions does PGE recommend?

A. PGE proposes a system of liquidated damages similar to what PacifiCorp currently uses on its Schedules 37 and 38. PGE intends to recommend the specific wording of the provisions in a compliance filing.

Q. Does PGE's proposal include an opportunity to cure?

A. Yes. PGE recommends cure provisions similar to those used in PacifiCorp's agreements.

Issue 6.C. – What is the appropriate contract term? What is the appropriate duration for the fixed price portion of the contract?

Q. Does PGE continue to support a 20 year contract with 15 years of fixed pricing for new QFs as set for it its direct testimony?

A. Yes.

Q. In direct testimony, PGE recommended a 5 year QF contract renewal term. Is that still PGE's position?

A. For most QFs, yes. However, we agree with CREA that a short term isn't appropriate for a facility that needs to be repowered with new wind turbines or solar panels. A repowered facility requires additional financing. For that reason, we propose that a facility that has been repowered within the past 5 years should be eligible for a 20 year term, with 15 years of fixed pricing; similar to that of a new facility.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
301	REC Data Response

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

DOCKET NO. UM 1610

THE COALITION'S RESPONSE TO PGE'S DATA REQUEST NO. 004

April 19, 2013

Data Request No. 004:

Regarding Coalition/100, Lowe/7, please identify the date and advice filing number for all updates to avoided costs that PGE proposed outside of the established process. Explain why REC believes each identified filing was outside of the established process of the requirements to file avoided costs within 30 days of IRP acknowledgement and every two years.

Response to Data Request No. 004:

Please see the response to PGE's Data Request No. 001.

BEFORE THE OREGON PUBLIC UTILITY COMMISSION

DOCKET NO. UM 1610

THE COALITION'S RESPONSE TO PGE'S DATA REQUEST NO. 001

April 19, 2013

Data Request No. 001:

In Coalition/100, Lowe/3, lines 20-22, the Coalition says "[i]t has been demonstrated over the past several years that, when avoided costs prices drop, the existing rules and processes are applied inconsistently, often to the disadvantage of QFs." Please provide all facts, figures, calculations, work papers, or articles that support this claim.

Response to Data Request No. 001:

REC objects to the extent the question asks for a legal opinion or legal research. The cases and outcomes speak for themselves. Mr. Lowe is giving his opinion based on his over 30 years of experience in the industry.

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **PORTLAND GENERAL ELECTRIC COMPANY'S REPLY TESTIMONY** to be served by electronic mail to those parties whose email addresses appear on the attached service list for OPUC Docket No. UM 1610.

DATED at Portland, Oregon, this 29th day of April, 2013.

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