

Public Utility Commission

3930 Fairview Industrial Dr. SE Salem, OR 97302

Mailing Address: PO Box 1088 Salem, OR 97308-1088

Consumer Services

1-800-522-2404 Local: (503) 378-6600 **Administrative Services**

(503) 373-7394

November 19, 2014

Via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION ATTENTION: FILING CENTER PO BOX 1088 SALEM OR 97308-1088

RE: <u>Docket No. UM 1610</u> – In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation Into Qualifying Facility Contracting and Pricing.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Response Testimony.

/s/ Kay Barnes
Kay Barnes
Filing on Behalf of Public Utility Commission Staff (503) 378-5763
Email: kay.barnes@state.or.us

c: UM 1610 Service List (parties)

PUBLIC UTILITY COMMISSION OF OREGON

UM 1610

STAFF RESPONSE TESTIMONY OF

BRITTANY ANDRUS

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation Into Qualifying Facility Contracting and Pricing.

November 19, 2014

CASE: UM 1610 WITNESS: BRITTANY ANDRUS

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 400

Response Testimony

November 19, 2014

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

A. My name is Brittany Andrus. My business address is 3930 Fairview Industrial Dr. SE., Salem, Oregon 97302-1166.

- Q. Please describe your educational background and work experience.
- A. My Witness Qualification Statement is found in Exhibit Staff/301.
- Q. What is the purpose of your testimony?

- A. The purpose of my testimony is to respond to the main points raised in other parties' opening testimony, and to provide additional information on the history of the Commission's policy regarding the calculation of capacity payments to QFs.
- Q. Did you prepare an exhibit for this docket?
- A. Yes. I prepared Exhibit Staff/401, consisting of 1 page.
- Q. Please summarize the issue.
- A. In Phase I of this general investigation into implementation of the Public Utility Regulatory Policy Act (PURPA), the Commission modified the calculation of standard renewable and standard non-renewable avoided cost prices to take into account the capacity contribution of different types of Qualifying Facility (QF) resources for prices paid to QFs during the utilities' deficiency periods. Prior to the Commission's order in Phase I, standard avoided cost prices were based on the assumption that each QF had the same contribution to meeting peak load as the avoided resource, which is a combined cycle combustion turbine (CCCT) for standard non-renewable avoided cost prices and a wind farm for standard renewable avoided cost prices. For standard non-renewable

avoided cost prices, this generally meant that intermittent resources, which do not reliably generate in all on-peak hours, were over compensated for capacity. For standard renewable avoided cost prices, this would have meant that both solar and baseload QFs would have been under compensated for capacity because they have a greater contribution to meeting peak load than the avoided wind resource.

After the Commission issued Order No. 14-058, Obsidian Renewables, LLC (Obsidian) asked the Commission to clarify its order regarding the capacity contribution adjustment for standard renewable avoided cost prices, and in the alternative, reconsider it. Obsidian noted that in the case of the renewable standard avoided cost rate, discounting the volumetric, dollars-per megawatt-hour rate for capacity to account for the hours a solar QF operated, and then effectively making that adjustment again by only paying the solar QF in the hours it operated, results in an unintended double discount that undercompensates the solar QF for capacity.

In response to Obsidian's motion, Staff agreed that there appears to be a flaw in the newly-adopted methodology that could result in undercompensating a solar QF for capacity. Staff asked the Commission to allow opportunity to address the issue in the compliance filings following Order No. 14-058. Staff subsequently suggested to parties that the parties address the issue in Phase II of Docket No. UM 1610, but on an accelerated basis, in order to avoid further delay in the implementation of new avoided cost prices.

Q. What are parties' positions regarding modifying the capacity contribution adjustment calculation?

A. Staff and the Oregon Department of Energy (ODOE) recommend that the Commission modify the capacity contribution methodology to address the "second discount" issue identified by Obsidian. Staff has discussed its recommended fix with the parties in previous workshops, and Obsidian states in its testimony that it is not opposed to the type of modification that Staff proposes. OneEnergy Renewables supports the testimony of Obsidian. Portland General Electric (PGE), PacifiCorp, and Idaho Power Company (Idaho Power) (together, the utilities) oppose any change to the capacity contribution adjustment, asserting that the calculation described in Staff's testimony in Phase I of UM 1610 and adopted by the Commission in Order No. 14-058 is consistent with the two-step process that the Commission has always used to calculate volumetric avoided cost prices.

Q. How are QFs compensated for capacity?

A. Before Order No. 14-058, solar QFs received the same rate per MWh, or volumetric rate, as a baseload QF resource. The solar QF received only a portion of the total annual capacity cost, however, because the QF only received the rate in the hours in which it generated.²

Under Order No. 14-058, QFs are still paid in the hours in which they generate, but the dollar-per-megawatt hour rate that has been calculated for capacity is

¹ Obsidian/100, Brown/7-8.

² Some of the on-peak hours are at night or during cloudy weather when a solar QF cannot produce. energy, and some of the on-peak hours have little wind and therefore little or no wind QF production.

adjusted to reflect the capacity contribution of the QF resource type (sourced from the utility's IRP). This calculation was intended to adjust the capacity payment for the differences in contribution to peak (CTP) provided by resources such as solar and wind.

- Q. How was the volumetric capacity rate described above determined prior to Order No. 14-058?
- A. First the capacity-related portion of the CCCT annual cost in dollars is estimated based on the fixed cost of a single-cycle combustion turbine (SCCT). The annualized cost of capacity is then converted to a dollar-per-megawatt-hour ("MWh") rate by dividing the annual capacity-related cost by the product of the number of on-peak hours in a year and the on-peak capacity factor (i.e., [annual fixed costs of SCCT ÷ (8,760 annual hours x 57 percent x 91.8 percent on-peak capacity factor)]). This step spreads the annual cost evenly over the assumed MWh of on-peak operation of the CCCT.
- Q. What is the flaw with the proposed adjustment Staff put forth in Phase I?
- A. As noted above, the Staff adjustment in Phase I of Docket No. UM 1610 (i.e., the "current method") reduces the volumetric capacity **rate** by a fraction representing the QF's relative contribution to capacity. However, because the volumetric rate is specifically designed to spread the cost of capacity over a number of MWh as if the QF's on-peak capacity factor is equivalent to a CCCT's, it is impossible for an intermittent resource that cannot operate in all those hours to receive all of the capacity dollars to which it is entitled.

1 Q. Please explain Staff's proposal and how it differs from the method used 2

3

4 5

6

7 8

9

10

11

12 13

14

15

16

17

18

19 20

21

prior to Order No. 14-058 and the current method. A. Prior to Order No. 14-058, a QF of any technology type was paid the full rate per MWh for capacity in any on-peak hours in which it generated. Using the

approximately \$42,000 per year per MW to a solar QF. A baseload resource would have been paid approximately \$140,000 annually per MW. So, under

representative calculations in Staff/401, this would result in annual payments of

the pre-Order No. 14-058 methodology, the solar QF with an on-peak capacity

factor of 27.5 percent would have received 30 percent of the dollars per MW

that were paid to a baseload resource.

Under the current method, the same solar QF would receive just under \$4,000 annually for capacity, or less than three percent of the capacity payments to a baseload resource.³ This is far below the value of the incremental contribution to peak using the 9.4 percent incremental capacity the solar QF brings relative to the wind avoided resource.

Under Staff's proposal, the solar QF would be expected to incrementally receive \$13,190, or 9.4 percent of the capacity payment a baseload QF would expect during the same period. The 9.4 percent number represents the incremental portion of capacity for the solar QF relative to the avoided renewable resource. Staff Exhibit 401 shows the avoided wind resource contribution to peak (CTP) of 4.2 percent, the solar CTP of 13.6 percent, and

³ This is under the standard renewable avoided cost method.

the difference of 9.4 percent. The dollar-per-MWh rate is calculated using the on-peak capacity factor for a solar resource.

Q. Please explain the on-peak capacity factors.

A. For a solar resource, the on-peak capacity factor is determined by multiplying the total solar output by the percentage share that occurs in on-peak hours, and dividing by the number of on-peak hours in a year. The representative on-peak capacity factor calculation for 1 MW of solar is [(total solar output x on-peak percentage of output) ÷ total on-peak hours], or [(1,607 MWh x 84.1%) ÷ 4,993] = 27.5%.

For a CCCT, the on-peak capacity factor of 91.8 percent is calculated by dividing the annual capacity factor (52.3 percent) by the ratio of on-peak hours in a year (57 percent).

Q. What is the technical issue in dispute?

A. The dispute turns on whether the capacity value of the CCCT should be discounted after it has been converted into a dollar-per-megawatt hour volumetric rate that is designed to be recovered if the resource operates in all on-peak hours of the year, as it is now, or whether the capacity value of the CCCT should be discounted prior to conversion into a volumetric rate (CCCT fixed cost expressed in dollars x the incremental QF capacity contribution). The utilities assert that departing from the method in Order No. 14-058 would mean they are paying more than their avoided costs. ODOE and Obsidian assert, and Staff agrees, that spreading a discounted rate to all on-peak hours,

and only paying the QF in the hours it generates, will undercompensate the solar QF for its capacity contribution.

- Q. Why is it appropriate to create a volumetric rate for an intermittent QF that allows the intermittent resource an opportunity to recover the full avoided cost associated with its contribution to peak?
- A. The answer to this question turns on the rationale underlying the Commission's decision to modify the calculation of the standard avoided cost rates. In Phase I, Staff recommended a departure from the traditional calculation of avoided cost prices to take into account characteristics of the QF. Generally, avoided cost prices are based on the costs (and characteristics) of the avoided resource, not the QF. In Phase I, Staff recommended that the Commission modify the standard avoided cost price methodologies to replace the value of the utility's avoided resource's contribution to peak with that of different resource types, thereby creating different standard avoided cost price streams that are differ by resource type.

As noted in testimony in Phase I, the Commission has previously not taken particular characteristics of QFs into account in setting standard rates. Staff recommended that the Commission do so to recognize the different capacity contributions of intermittent resources primarily to avoid overcompensating intermittent resources for capacity. Staff did not, however, recommend implementing a methodology that significantly undercompensated intermittent QFs for their capacity contribution.

In order to recognize the full value of the solar QF's contribution to peak it is necessary to adjust the calculation so that the cost of capacity is not spread over all peak hours (as is done for a baseload resource that is assumed to operate in all peak hours when developing the volumetric rate), but is spread to a subset of hours.

- Q. Please explain how Staff's proposal is consistent with the method for determining avoided cost capacity payments to QFs in Oregon.
- A. The basic principle for determining the per-on-peak MWh relevant capacity payment is to divide the relevant capacity entitlement by the total amount of on-peak MWh. The following examples demonstrate that Staff's proposal is consistent with this principle.

For CCCT

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

Determine capacity entitlement

Annual fixed cost of an SCCT: \$140,320

Contribution to peak of CCCT: 100%

Capacity entitlement of CCCT: \$140,320 x 100% = \$140,320

Determine rate

On-peak capacity factor of a CCCT: 91.8%

On-peak hours in a year: 4,993

Rate: \$140,320 ÷ (4,993 x 91.8%) = \$30.61 per MWh

For solar:

Determine capacity entitlement

Annual fixed cost of an SCCT: \$140,320

Contribution to peak of solar: 13.6%

Contribution to peak of avoided renewable resource (wind): 4.2%

Incremental contribution to peak of solar above avoided resource:

1 2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

9.4%

Capacity entitlement of solar:

\$140.320 x 9.4% = \$13.190

Determine rate

On-peak capacity factor of solar:

27.5%

On-peak hours in a year:

4,993

Rate:

 $13,190 \div (4,993 \times 27.5\%) = 9.60 \text{ per MWh}$

Q. What is your response to the position taken by PacifiCorp and Idaho

Power that the method required under Order No. 14-058 is correct

because it has been in place in Oregon for several years?⁴

A. The method that has been used for several years is based on thermal resources, and allocates costs based on assumptions for operating characteristics of thermal resources. In Order No. 14-058, the Commission modified the method for determining the value of capacity for the purpose of calculating avoided costs so that, for the first time, it takes into account the value created by resources with different operating characteristics. Using a volumetric rate based on an assumed production level for a thermal resource is not the correct starting point for calculating an adjusted capacity payment.

Rather, the correct starting point is the value of the capacity brought to the utilities' systems for the QF technology type. In order to avoid the use of incorrect assumptions in a volumetric rate, the dollar per unit of capacity, per year, is the appropriate starting point for calculating the QF capacity payment.

⁴ PAC/600, Duvall/6, 16-18: "In reality, this is not a discount from avoided costs at all; rather, it is simply the result of the proxy-method's two-step process that has been in place for Oregon QFs for many years."

Idaho Power/600, Youngblood/16, 23-24: "The fact that these payments are made on heavy load hours is the same as it has always been, and is not a 'second discount,' but an appropriate reflection of each utility's need for capacity."

Q. Does this conclude your testimony?

A. Yes.

3

1

2

CASE: UM 1610 WITNESS: BRITTANY ANDRUS

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 401

Exhibit in Support Of Response Testimony

November 19, 2014

Exhibit 401

I. Method prior to Order No. 14-058

а	b	С	d	е	f
SCCT Fixed Costs		Pr	oxy Resource: CC	ССТ	Capacity Rate
\$/kW-Yr	Ć/NAVALVI-	Annual energy weighted capacity factor	On-peak hours percent of annual hours	On-peak capacity factor	\$/MWh
\$/KVV-Y1	\$/MW-Yr				f = b /
а	b = a * 1000	С	d	e = c / d	(8,760*d*e)
\$140.32	\$ 140,320	52.3%	57.0%	91.8%	\$ 30.61

Annual capacity payments per MW, baseload resource*: \$ 140,250

*difference between \$140,320 and \$140,250 is due to rounding

Solar on-peak capacity factor: 27.5%

Annual capacity payments per MW, solar QF resource: \$ 42,033

II. Current method

g	h	i	j	k	I	m	n	0
	Renewable	Solar QF						
Capital cost	proxy resource	resource	QF incremental					
allocated	(wind)	contribution to	capacity					Percent of capacity
to capacity	contribution to	peak	contribution to	On-peak	On-peak		Sum of annual capacity	payments to
(on-peak hours)	peak		peak	capacity rate	capacity factor	On-peak hours	payments per 1 MW solar	baseload resource
\$/MWh			%	\$/MWh				
g = f			j = I - h	k = g * j		m = d * 8,760	n = k * l * m	o = n / b
\$ 30.61	4.2%	13.6%	9.4%	\$2.88	27.5%	4,993	\$ 3,951	2.8%

III. Staff-proposed method (option 1, capacity payment on all on-peak hours)

iii. Stair-proposed method (option 1, capacity payment on an on-peak nodrs)								
r		S	t	u	V	w	Х	у
Fixed C Capa		Renewable proxy resource (wind) contribution to peak	Solar QF resource contribution to peak	QF incremental capacity contribution to peak	QF capacity value	On-peak capacity rate	Sum of annual capacity payments per 1 MW solar	Percent of capacity payments to baseload resource
\$/MV	N-yr			%	\$/MW-yr	\$/MWh		
r =	b			u = t - s	v = r * u	w = v / (I * m)	x = w * l * m	y = x / b
\$ 14	40,320	4.2%	13.6%	9.4%	\$13,190	\$ 9.61	\$ 13,190	9.4%

CERTIFICATE OF SERVICE

UM 1610

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 19th day of November, 2014 at Salem, Oregon

Kay Barnes

Public Utility Commission

3930 Fairview Industrial Drive SE

Kay Barres

Salem, Oregon 97302

Telephone: (503) 378-5763

UM 1610 SERVICE LIST

PO BOX 1211 WELCHES OR 97067-1211 nelson@thnelson.com		
625 MARION ST NE SALEM OR 97301-3737 kacia.brockman@state.or.us		
625 MARION ST NE SALEM OR 97301 matt.krumenauer@state.or.us		
NATURAL RESOURCES SECTION 1162 COURT ST NE SALEM OR 97301-4096 renee.m.france@doj.state.or.us		
PO BOX 325 HOOD RIVER OR 97031 wcarey@gorge.net		
PO BOX 12729 SALEM OR 97309 mmcarthur@aocweb.org		
1001 SW FIFTH AVE - STE 2000 PORTLAND OR 97204-1136 rlorenz@cablehuston.com		
1001 SW 5TH - STE 2000 PORTLAND OR 97204-1136 cstokes@cablehuston.com		
610 SW BROADWAY, STE 400 PORTLAND OR 97205 dockets@oregoncub.org		
610 SW BROADWAY, STE 400 PORTLAND OR 97205 bob@oregoncub.org		
610 SW BROADWAY, STE 400 PORTLAND OR 97205 catriona@oregoncub.org		
1900 SW 4TH STE 7100 PORTLAND OR 97201 david.tooze@portlandoregon.gov		
6228 SW HOOD PORTLAND OR 97239 dhenkels@cleantechlawpartners.com		

DAVISON VAN CLEVE PC				
S BRADLEY VAN CLEVE (C) (W)	333 SW TAYLOR - STE 400 PORTLAND OR 97204 bvc@dvclaw.com			
DAVISON VAN CLEVE, PC				
TYLER C PEPPLE (C) (W)	333 SW TAYLOR SUITE 400 PORTLAND OR 97204 tcp@dvclaw.com			
ENERGY TRUST OF OREGON				
THAD ROTH (W)	421 SW OAK STE 300 PORTLAND OR 97204 thad.roth@energytrust.org			
JOHN M VOLKMAN (W)	421 SW OAK ST #300 PORTLAND OR 97204 john.volkman@energytrust.org			
EXELON BUSINESS SERVICES COMPANY, LLC				
PAUL D ACKERMAN (W)	100 CONSTELLATION WAY STE 500C BALTIMORE MD 21202 paul.ackerman@constellation.com			
EXELON WIND LLC				
JOHN HARVEY (C) (W)	4601 WESTOWN PARKWAY, STE 300 WEST DES MOINES IA 50266 john.harvey@exeloncorp.com			
IDAHO POWER COMPANY				
JULIA HILTON (C) (W)	PO BOX 70 BOISE ID 83707-0070 jhilton@idahopower.com			
DONOVAN E WALKER (C) (W)	PO BOX 70 BOISE ID 83707-0070 dwalker@idahopower.com			
LOVINGER KAUFMANN LLP				
KENNETH KAUFMANN (C) (W)	825 NE MULTNOMAH STE 925 PORTLAND OR 97232-2150 kaufmann@lklaw.com			
JEFFREY S LOVINGER (C) (W)	825 NE MULTNOMAH STE 925 PORTLAND OR 97232-2150 lovinger@lklaw.com			
LOYD FERY FARMS LLC				
LOYD FERY (W)	11022 RAINWATER LANE SE AUMSVILLE OR 97325 dlchain@wvi.com			
MCDOWELL RACKNER & GIBSON PC				
LISA F RACKNER (C) (W)	419 SW 11TH AVE., SUITE 400 PORTLAND OR 97205 dockets@mcd-law.com			
NORTHWEST ENERGY SYSTEMS COMPANY LLC				
DAREN ANDERSON (W)	1800 NE 8TH ST., STE 320 BELLEVUE WA 98004-1600 da@thenescogroup.com			

OBSIDIAN RENEWABLES, LLC				
DAVID BROWN (W)	5 CENTERPOINT DR, STE 590 LAKE OSWEGO OR 97035 dbrown@obsidianfinance.com			
TODD GREGORY (W)	5 CENTERPOINTE DR, STE 590 LAKE OSWEGO OR 97035 tgregory@obsidianrenewables.com			
ONE ENERGY RENEWABLES				
BILL EDDIE (C) (W)	206 NE 28TH AVE, STE 202 PORTLAND OR 97232 bill@oneenergyrenewables.com			
OREGON SOLAR ENERGY INDUSTRIES ASSOC.				
OSEIA DOCKETS (W)	PO BOX 14927 PORTLAND OR 97293-0927 dockets@oseia.org			
OREGONIANS FOR RENEWABLE ENERGY POLICY				
KATHLEEN NEWMAN (W)	1553 NE GREENSWORD DR HILLSBORO OR 97214 k.a.newman@frontier.com			
MARK PETE PENGILLY (W)	PO BOX 10221 PORTLAND OR 97296 mpengilly@gmail.com			
PACIFIC POWER				
R. BRYCE DALLEY (C) (W)	825 NE MULTNOMAH ST., STE 2000 PORTLAND OR 97232 bryce.dalley@pacificorp.com			
DUSTIN T TILL (C) (W)	825 NE MULTNOMAH ST STE 1800 PORTLAND OR 97232 dustin.till@pacificorp.com			
PACIFICORP, DBA PACIFIC POWER				
OREGON DOCKETS (W)	825 NE MULTNOMAH ST, STE 2000 PORTLAND OR 97232 oregondockets@pacificorp.com			
PORTLAND GENERAL ELECTRIC				
V. DENISE SAUNDERS (W)	121 SW SALMON ST 1WTC1301 PORTLAND OR 97204 denise.saunders@pgn.com			
JAY TINKER (C) (W)	121 SW SALMON ST 1WTC-0702 PORTLAND OR 97204 pge.opuc.filings@pgn.com			
PORTLAND GENERAL ELECTRIC COMPANY				
J RICHARD GEORGE (C) (W)	121 SW SALMON ST 1WTC1301 PORTLAND OR 97204 richard.george@pgn.com			

PUBLIC UTILITY COMMISSION OF OREGON			
BRITTANY ANDRUS (C) (W)	PO BOX 1088 SALEM OR 97308-1088 brittany.andrus@state.or.us		
PUC STAFFDEPARTMENT OF JUSTICE			
STEPHANIE S ANDRUS (C) (W)	BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 stephanie.andrus@state.or.us		
RENEWABLE ENERGY COALITION			
JOHN LOWE (W)	12050 SW TREMONT ST PORTLAND OR 97225-5430 jravenesanmarcos@yahoo.com		
RENEWABLE NORTHWEST			
RENEWABLE NW DOCKETS (W)	421 SW 6TH AVE., STE. 1125 PORTLAND OR 97204 dockets@renewablenw.org		
MEGAN DECKER (C) (W)	421 SW 6TH AVE #1125 PORTLAND OR 97204-1629 megan@renewablenw.org		
RICHARDSON ADAMS, PLLC			
GREGORY M. ADAMS (C) (W)	PO BOX 7218 BOISE ID 83702 greg@richardsonadams.com		
PETER J RICHARDSON (C) (W)	PO BOX 7218 BOISE ID 83707 peter@richardsonadams.com		
ROUSH HYDRO INC			
TONI ROUSH (W)	366 E WATER STAYTON OR 97383 tmroush@wvi.com		
SANGER LAW PC			
IRION A SANGER (W)	1117 SE 53RD AVE PORTLAND OR 97215 irion@sanger-law.com		
SMALL BUSINESS UTILITY ADVOCATES			
JAMES BIRKELUND (C) (W)	548 MARKET ST STE 11200 SAN FRANCISCO CA 94104 james@utilityadvocates.org		
STOLL BERNE			
DAVID A LOKTING (W)	209 SW OAK STREET, SUITE 500 PORTLAND OR 97204 dlokting@stollberne.com		