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VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UM 2011 – *Public Utility Commission of Oregon, General Capacity Investigation.*

Attention Filing Center:

Attached for filing in the above-captioned docket are the Joint Utilities' Initial Comments in Response to the E3 Report and Staff's Opening Comments.

Please contact this office with any questions.

Sincerely,

Alisha Till
Paralegal

Attachment

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2011

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON,

General Capacity Investigation.

**JOINT UTILITIES' INITIAL
COMMENTS IN RESPONSE TO E3
REPORT AND STAFF'S OPENING
COMMENTS**

1 Portland General Electric Company, PacifiCorp dba Pacific Power, and Idaho Power
2 Company (together, the Joint Utilities) respectfully submit these initial comments in response to
3 the Energy + Environmental Economics (E3) Whitepaper, filed on December 16, 2020, and Staff's
4 Opening Comments, filed on January 14, 2021. The Joint Utilities appreciate the discussion at the
5 February 24, 2021, workshop and the opportunity to provide these written comments. In these
6 comments, the Joint Utilities first explain their questions and recommendations regarding the
7 scope of this docket. Next, the Joint Utilities respond to Staff and E3's recommendations regarding
8 determination of capacity contribution and capacity valuation, before briefly commenting on
9 compensation frameworks. Due to the compressed timeline for preparing these initial comments,
10 the Joint Utilities anticipate providing detailed factual analysis regarding the implications of
11 Staff's proposals during the next round of comments.

12 **A. The scope, purpose, and outcome of docket UM 2011 remain unclear and must be**
13 **clarified.**

14 Docket UM 2011 was opened in 2019 as an investigation into capacity valuation to develop
15 a generally applicable methodology to apply across a broad range of applications, including energy
16 efficiency, demand response, utility resource planning, and qualifying facility (QF) avoided cost

1 pricing, among others.¹ While the scope of this docket has shifted in the past, the Joint Utilities
2 understand, based on Staff’s statements during the January 25, 2021, prehearing conference, that
3 Staff currently intends that this docket will adhere to its original scope and apply generically across
4 a broad range of applications. However, the recent workshop demonstrated that stakeholders
5 remain uncertain about what issues will be addressed in this docket, what issues will be addressed
6 in the Commission’s other PURPA implementation dockets, and what the outcome of this docket
7 will be.

8 Specifically, several of the capacity valuation and compensation issues discussed in E3’s
9 Whitepaper and Staff’s Opening Comments are inextricably intertwined with the Commission’s
10 PURPA avoided cost pricing methodology, which will be examined in docket UM 2000. The
11 Commission opened docket UM 2000 shortly after opening docket UM 2011, and the stated
12 purpose of docket UM 2000 is to “examine the appropriate methodology for calculating avoided
13 costs.”² In docket UM 2011, Staff has indicated that rules may be adopted regarding capacity
14 valuation that would affect PURPA avoided cost prices, and stakeholders discussed capacity issues
15 at the recent workshop primarily from the perspective of PURPA avoided cost pricing. For
16 example, Staff’s comments and the discussion at the workshop addressed the framework for
17 determining whether a utility is resource sufficient or deficient, which are terms typically used
18 only in the context of PURPA avoided cost pricing.³ The Joint Utilities understood from Staff’s

¹ *In the Matter of Public Utility Commission of Oregon General Capacity Investigation*, Docket No. UM 2011, Order No. 19-155, App. A at 2 (Apr. 26, 2019).

² *In the Matter of Public Utility Commission of Oregon Request to Adopt a Scope and Process for the Investigation into PURPA Implementation*, Docket No. UM 2000, Order No. 19-254, App. A at 28-29 (July 31, 2019).

³ Resource sufficiency and deficiency definitions, as applied in a PURPA context, are based upon a broader range of issues than the Joint Utilities’ need for capacity. For example, a utility’s resource deficiency period for renewable resources is currently defined by the anticipated date of a subsequent renewable resource procurement to meet long-
(continued...)

1 statements at the workshop that QF avoided cost pricing is not at issue in docket UM 2011, yet
2 Staff’s proposal to alter resource sufficiency and deficiency periods as applied in PURPA would
3 appear to do just that. Therefore, it remains unclear what issues will be resolved in docket UM
4 2011 and whether and how the outcome of docket UM 2011 will impact the Commission’s
5 methodology for calculating PURPA avoided cost prices, as that methodology may be amended
6 in docket UM 2000.

7 The Joint Utilities maintain that it would be most efficient and logical to address all issues
8 related to PURPA avoided cost pricing in the same docket—UM 2000. As part of docket
9 UM 2000, “Staff proposes to examine alternative methodologies for setting avoided costs,”
10 including “capacity related issues,” and Staff acknowledged that docket UM 2000 could result in
11 “complete methodological changes.”⁴ The Joint Utilities agree with Staff that capacity price is an
12 important component of the overall avoided cost price. If the Commission will consider proposals
13 for entirely new avoided cost calculation methodologies in docket UM 2000, it does not make
14 sense to adopt a capacity pricing methodology in this docket that may be reexamined and may
15 need to be revised in the near future. Piecemeal examination of avoided cost prices in separate
16 dockets is inefficient and creates the risk of inconsistent results and overpayment for QF
17 generation, contrary to PURPA’s customer-indifference mandate.

18 In addition, it appears that there may also be overlap between docket UM 2011 and docket
19 AR 631, the rulemaking addressing PURPA standard contract terms and conditions. In the March

term renewable portfolio standard requirements. While the scope of UM 2011 should include discussion of appropriate methods to determine the value of capacity in periods of capacity adequacy and inadequacy, it should not include proposals that adjust the broader notions of resource sufficiency and deficiency as applied in PURPA avoided cost pricing.

⁴ Order No. 19-254 at 29.

1 2, 2021, workshop in docket AR 631, Staff noted that issues related to minimum delivery
2 requirements for intermittent resources were addressed in E3's Whitepaper and suggested that
3 these issues could be resolved in docket UM 2011. Staff also stated that annual capacity value
4 updates that would be adopted in docket UM 2011 could affect the avoided cost update timing
5 proposed in docket AR 631. Thus, it appears that Staff has concluded that docket UM 2011 will
6 result in changes to PURPA avoided cost pricing methodologies, notwithstanding its comments at
7 the recent workshop in docket UM 2011 and the fact that the Commission is examining QF avoided
8 cost prices in docket UM 2000.

9 Staff's Opening Comments were largely silent on the scope and purpose of this docket,
10 even though stakeholders had raised concerns for many months. The Joint Utilities respectfully
11 request that Staff clarify in writing what the outcome of docket UM 2011 will be, how the outcome
12 will affect PURPA avoided cost prices, terms, and conditions, and how decisions here could be
13 impacted by future proposals in docket UM 2000. The Joint Utilities appreciate that Staff filed a
14 workflow regarding the PURPA policy dockets, but it did not address these specific issues of
15 scope. If Staff views docket UM 2011 as the dispositive forum for adjudicating the capacity value
16 that will be included in PURPA avoided cost prices, then stakeholders need to know now. This
17 clarification will allow stakeholders to focus on the merits of the issues in this docket, rather than
18 scoping questions, and will ensure that all interested parties have an opportunity to present their
19 positions regarding all issues that will be resolved in this docket.

20 **B. What methodology should the Commission use to determine the capacity**
21 **contribution of a resource?**

22 Generally, the best representation of capacity contribution is that used in each utility's
23 Integrated Resource Plan (IRP) modeling and other resource-evaluation contexts that apply the

1 same techniques developed in the IRP—for instance, during the evaluation of bids received as part
2 of a Request for Proposals (RFP). As with most modeling and forecasting exercises, any
3 methodology for capacity contribution is an estimate that must balance accuracy and
4 complexity. This balance may change over time as different types of data become available and
5 as the characteristics of a utility’s requirements and resource portfolio change. Any simplifying
6 methodology should be tested periodically against more robust techniques, and that testing may
7 involve several resource types. For example, a simplifying technique that works well for energy
8 efficiency may not work well for solar.

9 The Joint Utilities understand that Staff supports each utility using its own capacity
10 contribution methodology.⁵ The Joint Utilities agree that utility-specific capacity contribution
11 models should continue to be used in long-term planning and that each utility’s application of
12 capacity contribution in contexts outside the IRP should be consistent with and faithful to the IRP
13 methodology. The Joint Utilities may be differently situated in some respects, and differences
14 between utilities may arise based on their specific circumstances. In general, the Joint Utilities
15 support Staff and E3’s recommendations for determining capacity contribution based on loss-of-
16 load probability (LOLP) principles and last-in effective load carrying capability (ELCC).⁶ The
17 Joint Utilities also offer these additional comments regarding Staff’s proposal:

18 A resource’s capacity contribution should not exceed the utility’s capacity need. E3’s
19 methodology adopted by Staff could result in a resource having a capacity contribution even when

⁵ Staff’s Opening Comments at 9-10 (January 14, 2021).

⁶ Staff’s Opening Comments at 9.

1 the utility has no remaining capacity need.⁷ However, the IRP identifies the appropriate level of
2 reliability that customers should pay for, and a resource should not be credited with providing
3 capacity beyond that level. In addition, Staff’s proposal that a resource’s capacity contribution be
4 calculated separately for each year, rather than based on a test year, is inconsistent with each
5 utility’s IRP methodology. The utilities’ current IRP and RFP practices determine a resource’s
6 capacity contribution in a test year that is applied on a going-forward basis. In PGE’s case, this
7 practice attempts to minimize procurement risks for customers. Proposed changes to a utility’s
8 current IRP methodology should be considered within the larger context of a utility’s IRP process
9 rather than through a generic rulemaking. Should utility IRPs and RFPs continue to adhere to the
10 current methodology, using Staff’s proposed approach in other contexts could lead to crediting
11 resources for capacity contribution in a way that puts customers at risk.

12 **C. What methodology should the Commission use to determine the value of capacity**
13 **provided by a resource?**

14 As noted above, each utility’s IRP modeling produces the most comprehensive and
15 accurate assessment of a particular resource’s overall capacity value to that utility. Consistent with
16 the Joint Utilities’ IRPs, the Joint Utilities support Staff and E3’s proposal to use a net cost metric
17 to identify the avoided cost of capacity. At its core, IRP modeling compares the revenue
18 requirement of portfolios of resources, and this approach corresponds with the “net cost” construct
19 supported by E3, as reported revenue requirements include both the fixed costs of resource

⁷ Specifically, Staff’s proposed ‘Step 3’ of an ELCC calculation removes perfect capacity from the portfolio until original reliability metrics are achieved. Staff’s Opening Comments at 3. By removing perfect capacity from the portfolio (or adding corresponding negative loads), a resource may be credited with a capacity contribution even if the base portfolio requires no additional capacity resources. For example, if a base portfolio initially achieves planned reliability metrics, adding an additional resource would likely allow for planned reliability targets to be exceeded. In such a case, Staff’s proposed methodology would subtract perfect capacity and likewise credit the additional resource for capacity even though no additional resource is needed to meet planned reliability targets.

1 additions as well as variable cost (and revenues) from economic dispatch of the portfolio to meet
2 system requirements.

3 The Joint Utilities also agree with Staff that, at this time, a gas-fired simple cycle
4 combustion turbine (SCCT) remains an appropriate proxy capacity resource for generic purposes.⁸
5 However, the Joint Utilities would note that their IRP modeling allows capacity needs to be met
6 at a lower cost than would be available from only an SCCT proxy. For example, it would be
7 inappropriate for a utility to acquire only SCCTs to meet its peak requirements if IRP modeling
8 indicated that a portfolio of wind, solar, and energy storage resources could provide equivalent
9 reliability at lower cost. Providing compensation based solely on an SCCT proxy could result in
10 customers paying for resources based on the cost of an SCCT-only portfolio, despite the
11 availability of lower-cost alternatives. As a result, the Joint Utilities would encourage Staff not to
12 rely too heavily on the single data point represented by the SCCT proxy.

13 Any capacity valuation methodology should be benchmarked against the IRP, including
14 not just the capacity contribution analysis relied upon in the IRP, but also the portfolio optimization
15 and production cost results from the IRP models. To the extent the methodology examined in this
16 docket simplifies the comprehensive IRP analysis, the results of the methodology should be
17 compared to the cost of an equivalent resource identified in utilities' IRPs. This benchmarking
18 can help identify when it may be more appropriate to use a comparable proxy resource, rather than
19 the SCCT proxy.

20 A capacity valuation methodology should also account for a utility's ability to procure
21 capacity resources through competitive solicitations, which may yield lower total resource costs

⁸ Staff's Opening Comments at 8.

1 than a utility’s long-term planning would suggest. Actual procurement prices may diverge from
2 assumed planning costs due to several factors, including: (1) the ability to secure capacity from
3 existing resources at a cost less than steel-in-the-ground; (2) customer savings related to the
4 competitive nature of RFPs; (3) the ability to secure capacity from technologies other than the
5 proxy capacity resource; and (4) the possibility that future projects will be developed on a merchant
6 basis and will not require fully loaded, steel-in-the-ground capacity pricing. If a utility can actually
7 secure a capacity resource at a lower cost through an RFP, then that resource’s capacity value
8 represents the utility’s true avoided cost of capacity. Based on E3’s comments during the
9 workshop on December 17, 2020, the Joint Utilities understand that E3 agrees with this concept.

10 **1. To protect customers, the value of capacity must not exceed the utility’s**
11 **avoided cost.**

12 Fundamentally, the Joint Utilities believe that the value of capacity provided by a resource
13 cannot exceed the net cost that the utility otherwise would have incurred to obtain capacity to serve
14 retail customers. This principle is particularly important—and indeed legally mandated—when
15 valuing capacity in the context of PURPA, which requires that utility customers be held indifferent
16 to the purchase of QF generation.⁹ The Joint Utilities urge Staff to ensure that the approach of
17 valuing capacity in isolation in docket UM 2011—while examining other aspects of PURPA
18 pricing in other dockets—does not result in total payments to QFs that exceed avoided cost or
19 otherwise violate PURPA’s customer-indifference standard.

⁹ See 16 U.S. Code § 824a-3(b) (limiting the rates for purchase of QF output to the utility’s incremental avoided costs); *S. Cal. Edison Co.*, 71 FERC ¶ 61,269, at 62,079-80 (1995) (stating that in adopting PURPA, “Congress was not asking utilities and utility ratepayers to pay more than they otherwise would have paid for power. . . . The intention was to make ratepayers indifferent as to whether the utility used more traditional sources of power or the newly-encouraged alternatives.”).

1 It is important to tread carefully when attempting to isolate and value the capacity benefit
2 provided by a resource, because resources provide a blend of energy, capacity, and other benefits.
3 The Joint Utilities’ standard IRP modeling does not separately identify the value of capacity and
4 energy, and while reasonable estimates of each component can be calculated, the total value
5 remains the most accurate. When capacity and energy are valued separately, it is important to
6 ensure that the total compensation to a resource does not exceed the utility’s cost to construct or
7 acquire the proxy capacity resource, net of the energy, capacity, and other benefits that the proxy
8 resource provides. The reasonableness of capacity values calculated in isolation should be
9 evaluated in conjunction with associated energy value calculations.¹⁰

10 **2. A utility’s capacity deficiency period should not be arbitrarily determined.**

11 Staff proposes to adopt a generally applicable standard of a three-year resource sufficiency
12 period for purposes of PURPA avoided cost pricing, and Staff recommends that all utilities should
13 be assumed to be capacity deficient four years in the future.¹¹ This arbitrary approach—divorcing
14 the capacity need from any assessment of a utility’s actual need—does not comport with avoided
15 cost principles generally. In addition, using this approach for PURPA pricing would violate
16 PURPA’s customer-indifference standard by over- or under-compensating resources for capacity,
17 depending on a utility’s specific circumstances at a given time.

18 Staff’s arbitrary standard is based on its assertion that utilities procure major resources
19 approximately every three years, but the data Staff relies on does not support this conclusion and

¹⁰ Staff appears to propose changes to the energy component of PURPA avoided cost prices in its Opening Comments. See Staff’s Opening Comments at 7-8. The Joint Utilities understand energy pricing to be outside docket UM 2011’s scope but note their potential disagreement with Staff’s premises and recommendations on this point.

¹¹ The Joint Utilities are unclear when the three-year sufficiency period would begin—contract execution or resource online date.

1 is also incomplete. Specifically, Staff relies on a timeline of PGE acquisitions, which shows PGE
2 acquiring resources in 2010, 2011, 2016, and 2020.¹² Staff’s reliance on this timeline is misplaced
3 for several reasons. First, the timeline shows that assuming a three-year resource sufficiency
4 period for PGE would have been consistently incorrect for the last decade because PGE acquired
5 resources in either shorter or longer intervals. Second, Staff’s timeline contains incorrect and
6 incomplete information.

7 Third, PGE’s acquisition timeline is not representative of that of the other utilities. Since
8 2012, Idaho Power has acquired two non-QF resources—one that came online in 2012 and one
9 that is expected to come online in 2022. Applying Staff’s methodology to Idaho Power would
10 suggest that instead of a three-year timeline, Idaho Power should have a ten-year timeline.
11 PacifiCorp’s last major resource addition prior to the repowered and new wind resources acquired
12 as part of PacifiCorp’s Energy Vision 2020 program was Lake Side 2 in 2014. However, over that
13 time frame PacifiCorp contracted for the output of solar QFs with a nameplate capacity of roughly
14 1,000 MW, or approximately 10 percent of its annual peak load. Under Staff’s proposal, the first
15 MW of QF generation would have the same automatic three-year sufficiency period as the 1,000th
16 MW, all the while ignoring the utility’s specific circumstances.

17 **3. Resources should not be compensated for capacity when a utility is capacity**
18 **sufficient.**

19 The Joint Utilities also disagree with Staff and E3’s proposal to compensate resources for
20 capacity during the resource sufficiency period based on fixed O&M costs.¹³ This proposal
21 assumes that fixed O&M costs are the costs to maintain an existing capacity resource to ensure

¹² Staff’s Opening Comments at 7.

¹³ Staff’s Opening Comments at 7.

1 that it is available to ensure system reliability if needed. But the utility would not *avoid* the fixed
2 O&M costs for an existing resource during the resource sufficiency period. Therefore, customers
3 would pay for capacity twice, i.e., customers would pay the actual O&M costs to maintain the
4 existing facility and the same fixed O&M costs to the new resource that is not providing needed
5 capacity. The Joint Utilities maintain that a resource's capacity contribution during the capacity
6 sufficiency period does not result in avoided generation capital costs or avoided fixed O&M
7 expenses, and therefore compensating a resource for capacity during the sufficiency period would
8 result in overpayment.

9 **D. How should a resource be compensated for capacity?**

10 The Joint Utilities understand that issues in this category are outside the scope of docket
11 UM 2011. However, the Joint Utilities provide these brief comments. The compensation
12 framework is necessarily intertwined with other contract terms and conditions, including
13 performance obligations such as minimum delivery obligations, minimum availability guarantees,
14 scheduling, and actual resource performance, among others. Ideally, the compensation
15 framework, along with terms and conditions, will incent a resource to be operated in a manner that
16 is aligned with customer interests and ensure that overall compensation is commensurate with the
17 benefits provided. Depending on the resource type or program, different pairings of performance
18 obligations and compensation frameworks may be appropriate. The Joint Utilities encourage Staff
19 to allow for a robust exploration of these interrelated topics in the appropriate docket and to ensure
20 that issues decided in isolation do not result in overpayment by or increased risks for customers or
21 adverse impacts to reliability of the electric power grid.

DATED: March 8, 2021.

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