

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1802

In the Matter of)

Investigation into PacifiCorp's Non-Standard)
Avoided Cost Pricing.)
)
)
)

REPLY TESTIMONY OF

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ON BEHALF OF

**RENEWABLE ENERGY COALITION AND
THE COMMUNITY RENEWABLE ENERGY ASSOCIATION**

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1 values are compensated more than those with lower capacity values, all else being
2 equal.

3 This observation leads to my third response to PacifiCorp on this point:
4 the Company's explanation is faulty because it focuses on avoided capacity prices
5 in isolation from avoided energy prices. Analyzing avoided capacity prices in
6 isolation is misleading because, in accordance with the PDDRR the method,
7 capacity and energy prices for any QF are inextricably linked. If both are
8 considered in tandem, then the combined result is much more reasonable than the
9 Company's analysis of capacity pricing in isolation suggests.

10 Capacity pricing and energy pricing must be considered in tandem because
11 the GRID runs used to determine avoided energy costs also take into account the
12 displacement of the output from the deferred resource. So, for example, if a 10
13 MW biomass facility were to displace 63 MW of east-side wind in the
14 determination of avoided capacity price, then the GRID run (starting in the
15 deferral year) would remove 63 MW worth of wind resources in the "with QF"
16 case. This means that the biomass resource – which would produce 74,400 MWh
17 per year – would be responsible for displacing 238,194 MWh per year of nearly
18 free energy (at the margin) from the deferred wind plant.⁹ The net effect of such
19 a displacement is a minimal, or even negative, avoided energy cost (in isolation)
20 for a biomass QF when biomass displaces wind. Further, if the displaced wind
21 plant is eligible for PTCs, the foregone benefit from the PTCs will be included in

⁹ The wind energy is not entirely free because wind integration costs must also be taken into account.

1 the avoided cost calculation.¹⁰ Combining the very low or negative avoided
2 energy cost with the seemingly “too-high” avoided capacity cost – and taking into
3 consideration foregone PTCs when applicable – produces a *total* avoided cost that
4 reasonably represents the true avoided cost of the displaced wind plant within the
5 framework of the PDDRR method. So while, in isolation, both the avoided
6 capacity cost *and* avoided energy cost may appear to be unreasonable (one too
7 high, the other too low), taken together, within the framework of the PDDRR
8 method accepted by the Commission, they produce an accurate avoided cost
9 result.

10 Ultimately, it is PacifiCorp’s costs that are being avoided through the
11 PDDRR calculation. If, for some reason, the resulting avoided costs appear too
12 high to the Company, the cause is directly traceable to the assumed costs of the
13 Company’s owned planned resources.

14 **Q How does the Company’s position on the non-interchangeability of different**
15 **renewable resource types compare with the Company’s acknowledgment**
16 **that a renewable QF can partially defer a thermal resource?**
17

18 **A** As I noted above, the Company’s proposal allows a prospective QF the option of
19 having its avoided cost pricing based on the next deferrable thermal resource. Mr.
20 MacNeil explains this seeming inconsistency in the Company’s approach by
21 stating that, “Deferring a smaller quantity of a thermal resource with little
22 seasonality would create less of a potential mismatch.”¹¹ Based on this statement,

¹⁰ PacifiCorp apparently treats PTCs as a negative fixed cost, and thus an offset against capacity costs, even though PTCs are actually a function of energy output and arguably should be included in the calculation of avoided energy cost.

¹¹ Direct Testimony of Daniel MacNeil, p. 6.