

**PGE's Informal Comments on
Staff's Draft Incremental Cost of Compliance Rules
For Discussion at February 5, 2009 Workshop**

1. *(4)(a) An electric company must provide the estimated heat rate, availability factor, operation and maintenance costs per MWh, annualized replacement costs per MWh, and initial capital costs per MWh for the proxy plant based on recently built combined-cycle plants.*

This statement needs clarification

PGE has concerns regarding “the recently built proxy plant.” A consensus must be reached regarding whether there is one proxy plant for all electric utilities in Oregon or if the proxy plant is specific to the electric utility. In addition, we need to know if any adjustments to a recently built proxy plant should be made, including whether to place the plant in Oregon? In the Northwest? Further, if there are transmission constraints either on the transmission path from the plant or to the utility, how should the utility adjust the costs?

Another set of questions arises regarding the timeliness of the data if using a CCCT as a proxy plant. When do the cost data become outdated? In other words, during what amount of time from the plant coming on-line is it acceptable to use its original cost data? Further, what adjustments should be made to the cost data to make it current?

In addition, PGE does not believe that the proxy plant should be limited to a combined-cycle plant or to a recently constructed plant. The proxy resource would be what is most likely to be built absent the RPS.

This analysis should be performed as part of the utility's IRP and Avoided Cost Processes

PGE believes that existing standards and processes need to be utilized to comply with ORS 469A. For example, utilities currently make an Avoided Cost filing every two years. It seems this process dovetails nicely with estimating a proxy plant in determining the incremental cost of compliance for qualifying electricity. It is a tried and true process and is updated continuously.

IRP is another existing process that results in an Action Plan from an Acknowledged IRP. Development of the Action Plan, with some modifications to address the specifics of ORS 469A.075 – Implementation Plans, could provide the information required to meet the RPS standards. Having two acknowledgement processes is duplicative, time consuming, and adds to the cost of compliance for both Staff and the utility companies. PGE believes that more efficient approaches make sense and avoid unnecessary complex calculations.

2. *(5) Forecasts of fuel costs for proxy plants must be based on financially-firm long-term fixed prices for natural gas or include estimate of equivalent hedging costs for mitigating fuel price risk.*

PGE is concerned with producing this forecast. PGE is not aware of “financially-firm long-term fixed prices” for gas or other similar instruments that exist in the marketplace. There are long-term forecasts for natural gas, but to PGE’s knowledge, there are no long-term gas contracts available at a reasonable price. We would suggest that using a reputable natural gas forecast should be sufficient.

3. *(7) If the incremental costs of compliance plus the cost of unbundled RECs needed for compliance in calendar year is estimated to equal at least four percent...*

The four percent cap should include alternative compliance payments as well as incremental costs of compliance and unbundled RECs.

4. In section (8) of this draft rule, if the incremental cost of compliance may equal more than four percent of revenue requirement, then the utility must update all cost estimates,

What happens after the utility updates all the cost estimates? Is the purpose of this section of the rule to reevaluate whether or not the four percent will truly occur? If all the costs are updated and the utility is still above the four percent, what then? We see this as potentially circular the way it is written.

5. In both sections (8) and (9), it is not just the incremental cost that is subject to the four percent cap. It should also include the unbundled costs of RECs and alternative compliance payments.