

37. Table 1 shows Staff's proposed rates:

**Table 1: Staff's Proposed Schedule 37 Rates**

<b>Year</b>	<b>Energy Payment<sup>34</sup> (\$/MWH)</b>	<b>Capacity Payment<sup>35</sup> (\$/kw-month)</b>
2015	\$32.48	\$4.58
2016	\$34.12	\$4.58
2017	\$36.40	\$4.58
2018	\$39.10	\$4.58
2019	\$41.70	\$4.58

38. Table 2 shows the difference in total annual payments to a 2-MW generator under various annual capacity factor assumptions, using the Company's current rate, the Company's proposed rate, and Staff's proposed rate, using 2016 as an example year:

**Table 2: Rate Comparisons, 2016**

<b>Capacity Factor</b>	<b>Current Rate</b>	<b>Company Proposal</b>	<b>Staff Proposal</b>
90%	\$531,288,585,557	\$538,004	\$538,694,636,932
50%	\$295,160,325,309	\$298,891	\$299,273,353,851
30%	\$177,096,195,186	\$179,335	\$179,564,212,311

39. Staff's proposal more accurately reflects the capacity costs that Pacific Power avoids when it contracts with a QF. As shown in Table 2, Staff's proposal makes a small difference represents an 18.4 percent increase in the overall payments to a QF when compared

<sup>34</sup> Per the Company's initial filing in this docket.

<sup>35</sup> Based on the "CCCT Dry 'J' DF, Adv. 1x1" resource on page 116 of PacifiCorp's 2013 Integrated Resource Plan. At \$54.94/kW-Yr, this appears to be the resource with the lowest fixed costs in the Company's most recently acknowledged IRP. Staff calculated this figure by dividing the amount in the "Total Fixed (\$/kW-Yr)" column by 12 to align with the Company's current practice of calculating QF capacity payments on a \$kW-Mo basis.

with the Company's proposal, and an 8.8 percent increase when compared to the payment under the current tariff.<sup>36</sup> Though it has a minor impact on the small QFs that may take advantage of the standard offer tariff, the obligation to provide capacity payments is an important distinction to make because Schedule 37 serves as a template for negotiations with the developers of larger projects—projects that would help the Company avoid more risky market purchases in the future. It is therefore important that Schedule 37 fairly compensate developers for the costs that QFs help the Company avoid because failure to do so would place larger QF developers at a disadvantage when negotiating rates based on Schedule 37.

40. Regarding Pacific Power's alternate proposal, Staff does not support it because it would exacerbate the uncertainty that QF developers in Washington already face. Washington's use of a five-year term for the standard offer tariff benefits the Company and ratepayers by ensuring that avoided cost rates accurately reflect current market conditions. The five-year term however disadvantages developers by creating uncertainty over the long term, which complicates project financing. Creating variable QF rates would only subject developers to greater uncertainty and further discourage future QF development. Staff's analysis of the alternate proposal also suggests that it would disproportionately affect resources by fuel type: solar facilities would receive higher payments; while wind, hydro and methane facilities would all receive lower payments. Staff recommends that the Commission reject the Company's alternate proposal.

## **F. Conclusion**

41. Pacific Power is in a long-term period of resource deficiency. The fact that the Company has chosen, through its IRP, to rely on the market to meet the majority of its capacity

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<sup>36</sup> Although Staff's proposal would nearly double the Company's current capacity payments, capacity payments would only represent 0.155 percent of the total annual payments to a QF.