



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Helgeson, Manning, Mital, and Brown

FROM: Erin Erben, Chief Customer Officer, and Cathy Gray, AIC Integrated Portfolio Management Supervisor

DATE: October 21, 2016

SUBJECT: EWEB Avoided Costs Update

OBJECTIVE: Board Action – Approval of Resolution No. 1630

Issue

The Federal Public Utility Regulatory Policy Act (PURPA) requires that utilities buy power from certain “qualified facilities” at prices based on their “avoided costs” (that is, prices that should hold utilities customers harmless). Under federal and Oregon state regulations, EWEB is required to file with the Oregon Public Utilities Commission (PUC) power prices that are EWEB’s long-term avoided costs in each odd-numbered year. Filing with the PUC is also allowed to update material changes in market or underlying portfolio that would change the utility’s avoided cost profile. The attached Resolution No. 1630 will update EWEB’s avoided costs.

Background

Under PURPA, electric utilities have to purchase power from electric generation projects that meet certain size, fuel type, and efficiency criteria. PURPA, passed in 1978, was one of the national responses to the oil shortages that decade. One of its primary purposes was to increase renewable generation and cogeneration¹.

Projects that meet the criteria are known as *qualifying facilities*, or QFs. Under PURPA, electric utilities are required to pay QFs a price equivalent to what the utility would have paid *but for* the QF. This price is known as the avoided cost price, essentially the cost to the utility of its alternative source of power besides the QF².

It was left to the states to implement this act. Under most circumstances EWEB is not subject to regulation by the Oregon PUC, but one exception is that EWEB is required to file a document listing EWEB’s long-term avoided costs with the PUC. The PUC does not review or approve this document, but merely files them and makes them available to all interested parties.

Discussion

Avoided cost prices are “standard offer” power purchase prices for all generation facilities that meet the criteria of the standard offer contract. In concept it is very much like EWEB’s Distributed Generation program, for which the Board approves prices and restricts which types of generation qualify. Under Oregon’s PURPA rules, the standard offer prices only apply to facilities under 10MW of nameplate capacity, and projects above that size would need to pursue a non-standard contract and price offering.

¹ Also sometimes referred to as Combined Heat and Power projects, cogeneration is more efficient, and yields more useful energy output from a given amount of natural gas or coal.

² In the 1970s long-term power purchase contracts were uncommon; typically most utilities built their own generation.

In recent years, EWEB has not been approached by any qualifying facilities because our avoided costs have been too low for developers to justify building a project.³ EWEB's avoided costs are so low because we are surplus and any additional power received from a QF would be sold to the wholesale power market. Therefore, EWEB's avoided costs are based on forecasts of the power market.

Attachment 1 shows a table of EWEB avoided costs, by month, that management proposes to file with the PUC. These values represent the 20 year forecast of wholesale market prices projected at the Mid-Columbia trading hub which remains low due to the abundance of low-variable cost generation from wind and hydropower in addition to continued low natural gas prices.

TBL Assessment

The most recent IERP established that EWEB does not need additional long-term power purchases or resources beyond our existing resources except for flexible peaking capacity. However, we are required by federal and state laws to publish our avoided costs and purchase the power produced from projects that meet PURPA criteria that wish to sell to EWEB at the posted price. Beyond that, EWEB plans to meet all need for additional resources from conservation and energy efficiency.

Under PURPA, EWEB is obligated to purchase that power at a fixed cost price for up to 15 years, regardless of whether we want or need the power. That is why it is important that EWEB's avoided costs reflect the wholesale power market prices, because that is where QF power purchases would end up.

Unfortunately, the PURPA legislation will not allow EWEB to refuse to purchase the power from a QF if they accept our posted avoided costs, whether it be renewable or non-renewable. For this reason it is important that EWEB file updates to our avoided costs at least every two years or when the posted price no longer accurately reflects the forecast of future market costs.

Recommendation

Management recommends that the Board approve the updated avoided costs. Filing avoided costs with the PUC is required under OAR 860-029-0080 and ORS 758.525.

Requested Board Action

Approve Resolution #1630 to enable staff to file the updated avoided costs with the PUC in accordance with OAR 860-029-0080.

³ Staff has occasionally received inquiries about our avoided costs over the years, but we have not heard back once they learn about our low avoided costs.

EWEB Avoided Costs

On-Peak \$/MWh

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	28.43	26.75	26.39	24.86	24.99	25.41	26.35	28.25	27.33	28.35	28.41	28.74
2017	30.67	28.37	27.90	26.27	27.31	26.71	27.45	29.92	28.50	29.68	29.83	30.82
2018	32.23	30.46	29.71	27.67	28.21	28.02	29.16	31.66	30.64	31.25	30.82	32.78
2019	33.84	31.94	31.36	29.47	30.08	29.69	30.54	32.78	32.46	32.80	32.40	34.44
2020	35.59	33.57	32.93	30.92	30.98	31.35	32.20	34.28	33.94	34.45	34.36	36.42
2021	35.69	33.94	33.75	30.97	31.63	32.58	33.41	35.21	34.18	35.24	35.39	36.61
2022	36.47	34.55	34.22	31.73	32.13	33.23	34.14	35.92	34.55	36.12	36.05	37.09
2023	37.31	35.01	34.64	32.23	33.38	33.95	34.71	36.71	34.86	36.62	36.49	37.92
2024	37.62	36.00	35.65	33.36	32.98	33.90	35.40	37.26	36.56	37.34	36.58	38.76
2025	38.50	37.01	36.21	34.02	34.68	35.11	36.54	38.06	37.32	38.21	37.78	39.97
2026	39.26	38.16	37.42	34.90	34.52	36.30	37.79	39.06	38.40	39.70	39.33	40.87
2027	40.10	39.11	38.56	35.66	35.92	37.53	38.69	40.46	38.89	40.73	40.53	41.84
2028	41.50	40.35	39.16	36.49	36.94	38.35	39.85	41.79	39.36	41.93	41.53	43.07
2029	42.62	41.53	40.37	37.32	38.00	39.14	40.56	42.83	41.24	42.93	41.73	44.39
2030	43.36	42.76	41.47	38.92	38.14	39.62	41.66	43.74	42.65	43.97	43.09	45.59
2031	45.19	44.02	42.23	39.80	40.25	41.33	42.58	44.44	43.68	45.22	44.47	47.55
2032	46.47	45.86	44.09	41.04	40.52	42.65	43.64	45.66	44.49	46.61	46.77	48.75
2033	47.83	47.21	45.24	41.57	42.52	44.22	44.44	47.02	45.50	48.16	48.39	50.22
2034	49.38	48.77	46.44	43.20	43.35	44.82	45.80	48.74	46.57	49.51	49.65	51.90
2035	50.76	50.35	48.57	43.91	44.56	45.61	47.14	49.78	48.72	50.74	50.33	53.44

Off-Peak \$/MWh

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	22.58	21.93	20.72	18.65	17.83	17.19	19.34	20.85	20.89	22.21	22.30	23.34
2017	23.87	23.49	21.87	19.75	19.48	18.50	20.59	22.08	22.37	23.74	23.93	25.02
2018	26.08	25.78	23.70	20.87	18.70	18.23	21.49	23.91	24.33	25.46	25.66	27.31
2019	27.74	27.22	24.71	21.47	20.98	20.16	22.42	24.89	25.53	27.02	27.19	29.02
2020	29.33	28.62	26.12	23.13	21.10	21.00	23.88	26.65	26.93	28.75	28.98	30.71
2021	30.10	29.34	26.21	23.29	22.69	22.47	23.90	26.79	27.16	29.25	29.41	31.26
2022	30.79	30.15	27.14	23.70	22.06	22.82	24.59	27.46	27.92	29.84	30.01	32.05
2023	31.32	30.43	27.70	24.14	23.46	23.49	25.27	27.73	28.17	30.43	30.56	32.52
2024	32.14	31.30	28.74	24.98	22.33	23.67	25.63	28.40	28.96	30.85	31.41	33.50
2025	32.77	31.78	29.38	26.23	24.13	25.06	26.49	29.47	29.35	31.65	32.16	33.96
2026	33.77	33.03	30.55	27.18	23.85	25.30	27.36	30.49	30.48	32.79	33.44	35.00
2027	34.74	34.29	30.73	27.67	26.20	26.29	27.59	31.31	31.36	33.70	34.08	36.08
2028	35.75	35.23	32.31	27.83	24.91	26.74	28.96	32.10	32.50	35.36	35.74	37.41
2029	36.44	36.57	33.58	28.69	26.67	26.83	29.32	33.09	33.59	35.69	36.61	38.57
2030	37.54	37.84	34.63	29.00	25.66	28.07	30.23	33.81	34.65	37.09	37.82	40.11
2031	39.02	38.97	35.14	30.43	27.42	29.17	31.00	34.86	35.73	38.44	39.14	40.97
2032	40.32	40.71	35.72	31.67	27.33	29.59	31.87	36.22	37.31	40.03	40.57	42.83
2033	41.23	41.83	37.91	31.75	30.21	30.78	32.62	36.68	38.14	41.37	41.42	44.10
2034	43.12	43.72	39.17	32.32	28.04	31.28	33.81	37.59	39.79	43.62	43.51	45.93
2035	44.13	45.42	40.29	32.79	30.17	31.41	34.21	39.34	41.48	44.30	44.64	47.55

**RESOLUTION NO. 1630
NOVEMBER 2016**

**EUGENE WATER & ELECTRIC BOARD
2016 Avoided Cost Filing**

WHEREAS, the Federal Public Utility Regulatory Policy Act (PURPA) requires all electric utilities to purchase the generation from certain types of generation under long-term contracts at each utility's avoided cost; and

WHEREAS, the Oregon regulations OAR 860-029-0080 and ORS 758.525 require EWEB to file avoided costs with the Oregon Public Utilities Commission (PUC) at least every two years; and

WHEREAS, the Oregon PUC does not have jurisdiction over approving EWEB's avoided costs, but is required to file them for public availability; and

WHEREAS, the EWEB Board of Commissioners does have authority and responsibility to approve EWEB's avoided costs for purposes of PURPA; and

WHEREAS, EWEB staff have calculated updated avoided costs for 2016 through 2035 based on forecasts of wholesale power costs that management proposes to file with the Oregon PUC this month; and

WHEREAS, the Board has reviewed the background and need for updated avoided costs that will be paid to qualifying facilities under the PURPA regulations and approves these prices at its November 1st, 2016 Board Meeting.

NOW, THEREFORE, BE IT RESOLVED by the Eugene Water & Electric Board that the Board hereby approves the attached avoided costs prices as presented and proposed by management for years 2016 through 2035 until such time as the Board approves new values.

Dated this 1st day of November 2016.

THE CITY OF EUGENE, OREGON
Acting by and through the
EUGENE WATER & ELECTRIC BOARD

President

I, ANNE M. KAH, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its November 1, 2016 Regular Board Meeting.

Assistant Secretary