MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Erin Erben, Manager of Power Planning and Sibyl Geiselman, Energy Resource Analyst II

DATE: February 17, 2015

SUBJECT: EWEB Avoided Cost Rates

OBJECTIVE: Board Action – Approval of Resolution No. 1504

Issue

The Federal Public Utility Regulatory Policy Act (PURPA) requires that utilities buy power from certain "qualified facilities" at rates based on their "avoided costs" (that is, rates that should hold utility customers harmless from rate impacts). Under Federal and Oregon state regulations, EWEB is required to file with the Oregon Public Utilities Commission (PUC) power prices reflecting EWEB's long-term avoided costs in each odd-numbered year and is allowed to make updates due to material changes in market or underlying portfolio conditions that would change the utility's avoided cost profile. The attached Resolution is intended to update EWEB's avoided costs based on the regular two-year cycle.

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 cogeneration[1].

Projects that met these criteria were known as *qualifying facilities*, or QFs. Under PURPA, electric utilities were required to pay QFs a rate equivalent to what the utility would have paid for power *but for* the QF. This rate is known as the avoided cost rate, essentially the cost to the utility of its alternative source of power[2].

It was left to the individual states to implement this Act. Under most circumstances, EWEB is not subject to regulation by the Oregon PUC, but 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 it and makes it available to anyone who asks to see EWEB's rates.

Discussion

Avoided cost rates represent "standard offer" power purchase rates for all generation facilities that meet the criteria of the standard offer contract. Under Oregon's PURPA rules, the standard offer rates only apply to facilities under 10MW of nameplate capacity, and projects above that size would need to pursue a non-standard contract and rate offering. In concept this is similar to EWEB's Distributed Generation program, for which the Board approves rates annually and establishes which types of generation qualify.

EWEB has not been approached by any qualifying facilities since the last update. It is believed that our avoided costs have been too low for a developer to justify building a project in EWEB's service territory.[3] EWEB's avoided costs are low because our power supply portfolio is currently surplus when compared to its

[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] Note that in the 1970s long-term power purchase contracts were uncommon; typically most utilities built their own generation.

[3] Staff has occasionally received enquiries about our avoided costs over the years, but has not heard back once they learn how low our avoided costs are.

retail customer demand for energy. Essentially, this means that any additional power received from a QF would be sold into the wholesale power market since it would be surplus to retail need. Therefore, EWEB's avoided costs are based on the forecast price of the market power. This is consistent with the PUC's approved methodology.

Attachment 1 shows a table of EWEB avoided costs, by month, that management proposes to file with the PUC. These values were calculated by EWEB's long-term power planning model based on natural gas prices in early February.

TBL Assessment
The most recent IERP established that EWEB does not need additional long-term power purchases or resources beyond existing supply, except for very flexible peaking capacity. Beyond that, EWEB plans to meet all need for additional resources through conservation and energy efficiency measures. EWEB was also chartered to explore demand response programs as a way of addressing the flexible peaking capacity requirements on the horizon.

Even for QFs that are renewable resources or represent highly efficient use of natural gas, such as cogeneration facilities, EWEB simply does not need additional supply-side resources at this time. However, we are still required by federal and state laws to publish avoided costs and purchase the power produced from projects that meet PURPA criteria that choose to sell to EWEB at our posted prices. Under PURPA, EWEB is obligated to purchase that power at a fixed cost rate for up to 15 years, regardless of whether it needs the power to meet retail load requirements. This 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.

Because we recommend a policy that will likely result in no additional power purchases for EWEB, there is no anticipated change to prior triple bottom line assessments established in the IERP.

Recommendation
Management recommends that the Board approve the updated avoided costs provided in this memo.

Requested Board Action
Approve Resolution #1504 so that staff can file our updated avoided costs with the PUC, pursuant to state and federal regulations.

RESOLUTION NO. 1504
February 2015

EUGENE WATER & ELECTRIC BOARD
2015 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 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 2015 through 2029 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 rates at its February 17th, 2015 Board Meeting.

NOW, THEREFORE, BE IT RESOLVED by the Eugene Water & Electric Board that the Board hereby approves the attached avoided costs rates as presented and proposed by management for years 2015 through 2029 until such time as the Board approves new values.

Adopted at a meeting of the Eugene Water and Electric Board on February 17th, 2015.

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

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President

I, TARYN M.JOHNSON, 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 April 17th, 2012 Regular Board Meeting.

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Assistant Secretary

Attachment 1
EWEB's Avoided Costs during the 15 year fixed price period

On-Peak $/MWh

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	24.75	25.98	23.65	23.23	21.43	25.25	26.28	28.40	27.91	27.00	26.93	29.38
2016	29.07	30.23	27.75	27.52	25.16	30.70	31.43	34.47	33.95	33.24	34.77	35.84
2017	35.81	36.74	33.41	31.59	30.38	35.86	35.90	38.75	37.50	36.44	37.31	38.23
2018	38.50	40.14	35.72	33.28	31.11	36.11	37.77	40.66	39.46	38.94	39.70	40.34
2019	40.88	42.45	37.68	34.45	32.37	37.86	39.99	42.26	41.78	41.23	40.91	42.41
2020	42.53	44.76	38.60	36.01	33.99	40.05	42.03	43.84	43.67	42.81	43.23	45.11
2021	45.56	48.57	41.55	37.10	34.76	41.60	43.87	45.99	46.40	45.67	49.52	47.52
2022	47.40	50.34	43.59	38.46	36.35	43.63	45.55	48.70	48.37	49.40	50.71	51.66
2023	50.21	54.05	44.94	40.16	39.34	45.97	47.77	50.85	50.41	51.91	52.95	53.68
2024	52.60	56.45	46.85	41.54	39.48	45.30	49.26	52.70	52.43	53.85	53.08	55.43
2025	54.82	58.64	47.90	42.48	40.40	46.92	50.88	53.78	53.54	55.50	55.20	57.92
2026	56.55	61.11	49.62	44.41	41.23	48.67	52.50	56.01	55.36	56.81	57.76	60.41
2027	58.24	62.59	50.93	46.06	42.86	51.34	54.35	58.51	57.64	59.02	61.01	63.06
2028	60.79	65.19	53.96	46.98	45.70	54.19	56.46	61.00	59.50	62.16	63.71	64.46
2029	63.20	68.41	57.25	49.74	47.38	53.92	58.81	63.56	61.61	62.98	64.53	66.61

Off-Peak $/MWh

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	21.96	22.37	19.96	18.96	15.53	19.00	20.95	21.74	22.71	22.79	23.21	25.35
2016	25.21	26.27	23.45	22.35	19.05	23.16	25.04	26.39	27.70	27.69	29.76	31.31
2017	31.45	32.27	28.48	26.28	23.44	26.96	28.51	29.42	30.71	30.74	32.34	33.45
2018	34.00	34.51	30.66	27.74	23.88	27.33	29.52	30.92	32.39	32.48	33.72	35.16
2019	36.02	36.47	32.19	29.22	24.88	28.33	31.00	32.42	34.33	33.99	34.64	36.82
2020	37.67	37.98	33.72	30.30	27.10	30.15	32.28	33.54	36.78	35.64	36.87	38.68
2021	39.24	41.10	34.66	31.69	27.23	31.34	33.54	35.42	38.60	37.60	41.31	40.86
2022	41.28	42.77	36.25	33.11	28.69	32.86	34.92	37.70	39.95	39.68	42.67	43.47
2023	43.56	45.06	38.02	34.26	30.98	34.40	36.71	39.45	41.80	42.03	44.57	45.43
2024	45.09	46.95	39.63	36.69	31.63	34.88	38.42	40.56	41.93	43.04	44.29	47.45
2025	46.92	48.72	41.22	37.88	32.71	36.03	39.69	41.68	43.54	44.40	45.37	49.21
2026	48.18	49.65	43.12	38.76	34.06	37.84	41.00	43.18	45.17	45.91	47.39	50.97
2027	49.66	51.56	44.48	40.76	35.67	39.72	42.68	44.99	46.71	47.79	50.36	52.71
2028	52.35	53.78	47.03	42.47	37.30	41.99	44.61	46.85	48.60	50.11	52.54	54.46
2029	54.55	56.32	49.38	44.38	39.34	42.54	46.52	49.04	49.82	51.66	52.52	56.28