Federal Public Utility Regulatory Policy Act of 1978 (PURPA): Update March 2006

The basic purpose of PURPA is to provide a market for the electricity produced by small power producers and co-generators ("Qualifying Facilities" or QFs). Under this federal law, utilities are required to pay rates to QFs equal to what they would have incurred in lieu of purchasing the electricity from the QF (the "avoided cost" to the utility).

Long term standard contracts with tariffs based on the utilities' avoided cost are a necessary condition for the development of distributed renewable energy resources. While many QF contracts were signed in Oregon in the 1980s, few contracts have been signed since.

Investor-owned utilities (IOUs)
The Oregon Public Utility Commission's (OPUC) Order No. 05-584 (May 13, 2005, as part of investigation UM 1129 for PGE, Pacific Power and Idaho Power) includes the following:

- QFs of 10 MW or less are eligible for standard contracts with a maximum length of 20 years. It allows a QF to select fixed pricing for the first 15 years, but requires a market pricing option for the last 5 years.
- It requires payment of the full avoided cost, whether the QF provides firm or variable power from sources such as wind and solar.
- Utilities have to offer three pricing options. PGE offers a fourth one.
- Specific requirements for security, construction credit, insurance and indemnity are placed on the owner of the QF.

Currently, Phase I compliance proceedings are almost completed, with remaining disputes primarily pertaining to:

- The level of natural gas price forecasts used to calculate avoided costs based on the proxy gas-fired power plant.
- Contract default conditions related to the unpredictability of wind and hydro resources.

The OPUC decided that a Phase II of UM 1129 will look primarily into issues related to non-standard contracts for QFs larger than 10 MW. New contracts for PacifiCorp and PGE to buy power that is transmitted from outside their service territories will also be included in Phase II [1]. Hearings for Phase II are scheduled for early May 2006.

Consumer-owned utilities (COUs)
The consumer owned utilities' avoided cost is currently relatively low due to their access to cheap BPA power. Consequently, few, if any QFs have approached a COU for a PURPA contract. COUs currently do not offer standard long-term contracts with published rates.

Federal-State law issue
The federal Energy Policy Act of 2005 repealed PURPA's mandatory purchase requirement in some areas of the country that have independent transmission operators and viable spot markets. Neither condition is likely to exist in the Pacific Northwest in the near future. But if this occurred, the viability of this market structure for small renewable projects would need to be examined on the state level.

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[1] An agreement to settle this issue has been reached (PacifiCorp's Supplemental Testimony, March 24, 2006).