



## FACT SHEET

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### Public Utility Regulatory Policies Act of 1978 (PURPA)

The Public Utility Regulatory Policies Act of 1978 (PURPA) was enacted following the energy crisis of the 1970s to encourage competition and the development of renewable energy technologies by non-utility power producers. PURPA, and Oregon’s parallel legislation codified in ORS Chapter 758, requires electric utilities to purchase power generated by qualifying facilities, or QFs. QFs fall into two groups:

- Small Power Production Facilities – 80 MW or less whose primary energy source is renewable
- Co-Generation Facilities – produce both electricity and another form of useful thermal energy (like heat or steam) in a way that is more efficient than separate production

The rates paid by the utility for the energy and capacity of the QF power may not exceed a utility’s “avoided cost” and must be just and reasonable to the utility’s customers and in the public interest. “Avoided cost” is defined as the cost to the utility of the electric energy which, but for the purchase from the QF, the utility would generate or purchase from another source.

#### PUC’s Role

In Oregon, the Oregon Public Utility Commission (PUC) sets contracting and pricing terms for QF power sold to Oregon’s three investor-owned utilities (Portland General Electric, PacifiCorp, and Idaho Power). Oregon’s consumer-owned utilities adopt their own rules and prices to administer their PURPA obligations.

The PUC has consistently interpreted its PURPA mandate to be the adoption of policies and rules that encourage the economically efficient development of QFs, while protecting ratepayers by ensuring that utilities pay prices equal to that which they would have incurred in lieu of purchasing QF power.

#### Eligibility for Standard Contracts

Under federal law, small QF projects 100 kW or less must be offered *standard contracts* and *standard avoided cost prices*. The standard offerings allow small QFs the ability to contract with utilities with limited need for negotiations.

States may raise this 100 kW threshold and require these standard offerings be provided to larger QFs. Over the years, the PUC has adjusted the size thresholds in response to market changes and status of QF development. The PUC has established the following thresholds, which were last updated in 2017:

	Non-Solar QFs	Solar QFs
Standard avoided costs	Up to 10MW	Up to 3MW
Standard contract terms	Up to 10MW	Up to 10MW

## Methodology

There is significant diversity in the methodologies used by states to develop avoided cost pricing.<sup>1</sup> In Oregon, the PUC has adopted a methodology by which avoided cost prices are based on the costs of the lowest cost resource otherwise available to the utility.

Although PURPA does provide some authority to adjust the utility's avoided cost to take into account certain characteristics of the QF, this flexibility is limited for *standard* avoided cost prices because they are by definition "standard" and as a general matter do not take into account specific characteristics of any particular QF. However, the PUC has created multiple price options that recognize the different value that different QF types provide to the energy and capacity needs of the system. For example, there is a separate avoided cost price for wind QFs and for solar QFs.

The flexibility to address unique characteristics, such as the QF's dispatch ability or its proximity to the utility's load, is greater for negotiated rates and contracts (which must be used by projects larger than the threshold for standard rates and contracts but are available to QFs of any size). If a QF has characteristics that provide particular value to the utility relative to the utility's avoided proxy resource, negotiated avoided cost prices can be adjusted to reflect that value.

PURPA does not allow the PUC to adjust avoided cost prices to account for external benefits of a QF project that are not related to its performance. These include economic benefits that a QF project may bring to a local economy, or other general social benefits.

## **PUC Processes**

The PUC regularly updates avoided cost pricing through two processes. First, the PUC performs a comprehensive update of a utility's avoided costs following completion of the utility's integrated resource planning (IRP) process. This occurs at least every two years. Second, the PUC performs a limited update to capture market forecasts and other inputs every May.

Both updates are completed through an open and public process, where the PUC and other stakeholders have access to the data needed to vet to the utilities' avoided cost calculations and the resources that utilities procure outside of PURPA. Some information used to help inform avoided costs, however, is competitively sensitive. For that reason, the PUC may adopt protective orders to allow its staff, customer groups, and other stakeholders to access this information, while shielding it from companies that negotiate or participate in utility procurement processes.

The PUC also periodically conducts investigations and activities examine other PURPA related issues to best balance the incentives for QF development while ensuring that ratepayers remain indifferent to QF power by having utilities pay no more than their avoided costs. Currently, the PUC has a rulemaking ([Docket AR 631](#)) that is considering, among other things, policies that improve the contracting process. The PUC also has an open investigation into avoided cost methodologies that is considering the changing utility resource mix when identifying proxy resources and looking to include an expedited process to establish solar + storage standard price streams.

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<sup>1</sup> For a summary of PURPA implementation by state, the National Regulatory Research Institute maintains an on-line database: [PURPA Tracker](#).