BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1452

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into Pilot Programs to Demonstrate the Use and Effectiveness of Volumetric Incentive Rates for Solar Photovoltaic Energy Systems.	Comments of Renewable Northwest Project and the Citizens' Utility Board re Volumetric Incentive Rate for April 2012 Enrollment

Renewable Northwest Project ("RNP") and the Citizens' Utility Board ("CUB") appreciate the opportunity to comment on the determination of appropriate Volumetric Incentive Rates ("VIRs") for the April 2012 enrollment period of the Solar Photovoltaic Pilot Program ("Program").

For small-scale systems, we recommend that the Oregon Public Utility Commission ("Commission") use the Automatic Rate Adjustment Mechanism ("ARAM") to set the VIR for small-scale systems. Although we acknowledge that the resulting VIR may not be high enough to guarantee full allocation of capacity, on balance we favor the greater stability and sustainability that may be achieved by allowing the administrative mechanism to function without additional intervention. We also acknowledge that using the ARAM may lead to different VIRs being present in counties where multiple utilities have service territory, but we believe that forcing VIR consistency within a single county may raise more problems than it resolves.

For medium-scale systems, the April 2012 VIR should be guided by the VIR bids received in the medium-scale category during the October 2011 enrollment period. We suggest using the average of the winning bids, but recognize that the divergence between the average bid price and the high bid price is very small.

I. Background

In comments regarding the VIR for the October 2011 Program allocation, RNP recommended that the VIR be set by the ARAM and therefore reduced by 10% for all utilities. [1] Based on its financial modeling, RNP concluded that a 10% reduction from the April 2011 VIR would be a sufficient, but not excessive, incentive for solar photovoltaic ("PV") development.[2] The Commission disagreed, and instead overrode the ARAM to reduce the VIR by 20% for October 2011.[3]

Applications waned in the October 2011 enrollment period. After three months of enrollment availability, significant amounts of capacity remain available, especially in the Portland General Electric ("PGE") service territory. According to the statistics presented by utility representatives at the VIR workshop on January 4th, 2012, approximately 43% (645 kW out of 1,513 kW) of PGE's available capacity in the small-scale category had been reserved and roughly 83% (747 kW out of 902 kW) of the available capacity in the PacifiCorp small-scale category was reserved at the end of the three-month enrollment period.

Based on these figures, the ARAM prescribes that, for the April 2012 enrollment period, the VIR in PGE service territory would increase by 10% and the VIR in PacifiCorp service territory would remain the same.[4] Order No. 11-339 stated: the "ratio of adjusted

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[1] UM 1452 - Renewable Northwest Project's Comments. Filed July 7, 2011. Page 3.
[2] Ibid. Page 2.
[3] UM 1452 - Order No. 11-280. Oregon Public Utility Commission. Filed July 29, 2011.
[4] Ibid.

capacity reservation requests in kW to available capacity" at the end of the three-month enrollment period—hereafter referred to as the "*reservation/capacity ratio*"—would " . . . be used in the ARAM to create [a] rebuttable presumption that the VIR should be lowered, increased or remain the same."[5] The instant proceeding offers parties the opportunity to rebut the presumption set by the ARAM for small-scale systems.

The VIR for medium-scale systems was not set by the Commission in October 2011. Due to changes adopted before the October 2011 enrollment,[6] only small-scale projects (0-10kW) received the VIR set by the Commission. Projects in the medium-scale category (10-100 kW) were required to submit VIR bids, akin to the process established for the large-system category (100-500kW) at the beginning of the Program. For the April 2012 enrollment, however, medium-scale projects will revert back to a Commission-set VIR. In the instant proceeding, parties may comment on how the Commission should set the April 2012 VIR for medium-scale systems.

II. The VIR Prescribed by the ARAM Promotes Stability and Sustainability for Small-Scale Systems.

Since its inception, the Program has been modified frequently. The Commission reduced the VIR by double the reduction prescribed by the ARAM prior to both the April 2011 and October 2011 enrollment periods. These and other adjustments require significant investments of time and resources by all parties, diminish certainty in the market, and may detract from the Program's ability to represent a successful policy tool for delivering solar incentives.

As RNP also argued prior to the October 2011 enrollment period, we believe that it

[5] UM 1452 – Order 11-339. Oregon Public Utility Commission. Filed September 1, 2011. Page 6.
[6] Order Nos. 11-089 (UM 1505) and 11-339 (UM 1452)

is in the best interest of the Program, ratepayers, and the development of solar in Oregon for the VIR to be determined by the ARAM. The prescribed 10% increase in PGE service territory would result in a VIR only slightly below the VIR we determined to be financially viable for the October 2011 enrollment period.

We do not disagree with other solar advocates that a 20% increase in the VIR may be necessary to sufficiently drive PV development to allocate available capacity in the April 2012 enrollment period. One major reason that a 20% VIR increase may be necessary to fully allocate capacity in April 2012 is that the 30% federal cash grant in lieu of the Investment Tax Credit (ITC) is no longer available. The 30% federal ITC is still available, but projects without sufficient federal tax liability may not be able to realize the full value of the ITC, thereby necessitating a higher VIR to make the project financially viable. This is a valid concern and may lead to lower levels of subscription in the next enrollment period than would have occurred if the 30% cash grant were still available.

Ultimately, though, overriding the ARAM would result in yet another change beyond the operating regime of the Program. Our preference would be to have a lower subscription level, if it occurs, addressed by the ARAM in the subsequent enrollment period rather than with another preemptive change to the VIR prescribed by the ARAM. We believe that allowing the ARAM to function would result in a reasonable VIR and possibly a more stable, sustainable Program that will ultimately be of greater benefit to the development of solar policy in Oregon.

III. Bidding Results Provide a Clear Indication of the Market-Clearing Medium-Scale VIR.

Part of the reason the Commission adopted competitive bidding in the medium-scale category was to allow for a clear indication of market-clearing VIRs. The Commission stated that "competitive bidding can be an effective means for identifying acceptable rates while keeping costs down" and that "disclosing bid prices provides useful program information."[7] In accordance with our belief that the Program may benefit from minimizing the amount of administrative intervention at this time, we suggest that setting the VIR for the medium-scale category should be guided by the winning medium-scale bids from the October 2011 enrollment period.

In using the winning bid prices, however, the Commission should acknowledge the possibility that the lowest winning bids may not ultimately lead to a project being realized. One possible approach would be to use the average of the winning bids to determine the medium-scale VIR, assuming that at least some of the winning bids will ultimately lead to constructed projects. In addition, if evidence were to show that the lowest winning bids did not represent viable projects, throwing out the lowest bids when calculating the average could be warranted. In any case, we note that the difference between the average winning bid and the high winning bid is very slight, and that anything between those two would likely represent an appropriate VIR.

IV. VIR Divergence Between Utilities Will Create Different VIRs Within Single Counties.

With such wide discrepancies between PGE's and PacifiCorp's reservation/capacity ratios, it is appropriate that the two utilities have different VIRs. However, in counties where the utilities both have service territory, this would lead to different VIRs being offered within the same county. Currently, the VIR is differentiated by county to account

[7] UM 1505 – Order No. 11-089. Oregon Public Utility Commission. Filed March 17, 2011. Pgs. 7-8.

for the difference in solar resource throughout the state. Having two different VIRs within the same county would disregard the notion that the VIR should be dependent on available solar resource, and instead make it dependent on the utility serving the project site. This would likely lead to projects being developed in the more resource rich areas of a utility's service territory; in some ways, this is an ideal policy outcome. However, it also raises complications for solar contractors that would need to offer different VIRs within the same county (*e.g.,* Multnomah County).

One potential remedy for this issue would be to force a common VIR in counties served by more than one participating utility. However, this creates a host of new questions. For example, in a county where both utilities have service territory, how should the VIR be adjusted? Should it be adjusted according to a single utility's reservation/capacity ratio? Or should the reservation/capacity ratios for both utilities within that county be analyzed? If the reservation/capacity ratio for each utility within a single county is analyzed, why should the ratio not be analyzed for each utility for every county in which they have service territory?

Although we acknowledge that having two different VIRs in the same county could create complications, we believe that attempting to address the discrepancy would result in a significant amount of administrative burden that is not worth the benefit of avoiding different VIRs with the same county. In addition, driving PV development to the most resource rich areas of each utility's service territory is not necessarily a bad policy outcome. Therefore, we recommend that the ARAM be used to set the VIR according to each utility's overall reservation/capacity ratio for its entire service territory. If the Commission does wish to address this issue, however, we recommend that any adjustment be limited to

Multnomah County, and that PacifiCorp's Multnomah County customers be offered the same incentive rate as PGE's.

IV. Conclusion

We appreciate the Commission's continued engagement with the Program and its attempts to improve upon the initial design. After making substantial changes to the Program over the past year, though, we hope that the Program can be set on a smoother course. Ultimately, we believe that stability and patience will create a more sustainable Program and, possibly, a more hospitable environment for its continuation or expansion. Therefore, we recommend that the Commission allow the Program's embedded mechanism for setting the VIR—the ARAM—to function. Specifically, for the April 2012 enrollment period, we recommend using the ARAM to set the VIR for the small-scale category, regardless of geographic location, and using the winning bid VIRs from the October 2011 enrollment period to set the VIR for the medium-scale category.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing **COMMENTS OF RENEWABLE NORTHWEST PROJECT AND THE CITIZENS' UTILITY BOARD RE VOLUMETRIC INCENTIVE RATE FOR APRIL 2012 ENROLLMENT** on the following persons on January 17, 2012, by e-mailing to each a copy thereof:

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