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July 7, 2011

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

Re: UM 1452 – INVESTIGATION INTO PILOT PROGRAMS TO DEMONSTRATE THE USE & EFFECTIVENESS OF VOLUMETERIC INCENTIVE RATES FOR SOLAR PHOTOVOLTAIC ENERGY SYSTEMS

Attention Filing Center:

Enclosed for filing in UM 1452 are an original and five copies of:

Opening Comments of Portland General Electric Company and Pacific Power on the VIR for October 2011 Enrollment Window

This document is being filed by electronic mail with the Filing Center. An extra copy of the cover letter is enclosed. Please date stamp the extra copy and return to me in the envelope provided.

This document is being served electronically upon the UM 1452 service list.

Thank you in advance for your assistance.

Sincerely,

J. Richard George
Assistant General Counsel

JRG:smc
Enclosures
cc: Service List-UM 1452

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	**OPENING COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY & PACIFIC POWER ON THE VIR FOR OCTOBER 2011 ENROLLMENT WINDOW**

Portland General Electric Company ("PGE") and PacifiCorp d/b/a Pacific Power ("Pacific Power") appreciate the opportunity to provide comments on the appropriate Volumetric Incentive Rate ("VIR") to be used for the October 2011 open enrollment window. PGE and Pacific Power will also separately file comments in this proceeding regarding the implementation and policy-related issues resulting from changes the Commission ordered to:

1) Move from a first-come, first-serve method to a lottery system to fill capacity under the net metering options, and
2) Introduce the use of the bid-option for medium size (10 kW – 100 kW) systems.

These comments focus on the appropriate VIR for the forthcoming window. However, the Commission's consideration of how to apply the 50-50 split of medium size systems between bid-option and lottery is an underlying policy question that affects PGE's and Pacific Power's recommendations herein. As previously explained in our February 28, 2011 Joint Reply Comments in UM 1452, PGE and Pacific Power propose to alternate the use of approaches for medium size systems from one enrollment window to the next and to begin with the lottery option for medium size systems for the next window in October. As a result, PGE and Pacific Power present proposed VIRs for both small and medium size systems below. If, however, the Commission approves the exclusive use of the bid option for medium size systems in the October window, it would not be necessary for the Commission to determine the appropriate VIR for medium size systems until the following window in April 2012.

For purposes of the upcoming enrollment window, PGE and Pacific Power propose a 20% reduction in the VIR. Table 1 and 2 below provide the history and proposed VIR for the small and medium size systems, respectively.

Table 1 (Small Systems, 10 kW and under)

Rate Zone	July 2010 actual (cents/kWh)	October 2010 actual (cents/kWh)	April 2011 actual (cents/kWh)	October 2011 proposed (cents/kWh)
1	65 cents	58.5 cents	46.8 cents	37.4 cents
2	60 cents	54 cents	43.2 cents	34.6 cents
3	60 cents	54 cents	43.2 cents	34.6 cents
4	55 cents	49.5 cents	39.6 cents	31.7 cents

Table 2 (Medium Systems, Greater than 10 KW, less than 100 KW)

Rate Zone	July 2010 actual (cents/kWh)	October 2010 actual (cents/kWh)	April 2011 actual (cents/kWh)	October 2011 proposed (cents/kWh)
1	55 cents	49.5 cents	39.6 cents	31.7 cents
2	55 cents	49.5 cents	39.6 cents	31.7 cents
3	55 cents	49.5 cents	39.6 cents	31.7 cents
4	55 cents	49.5 cents	39.6 cents	31.7 cents

Since establishing the initial VIR rate, the Commission has twice previously reduced the rate, first by 10 percent and most recently, by 20 percent for the April 2011 window. Despite these reductions, enrollment for capacity has continued to fill in a matter of minutes, not days, weeks or months. Under the Rate Adjustment Mechanism ("RAM"), the threshold for the presumptive 10% reduction would occur if the enrollment filled in 3 months. A review of the Commission's determination in Order 11-090 to reduce the VIR by 20% is instructive as the Commission considers the VIR change for the forthcoming October window. In that Order, the Commission said:

> We conclude that a larger reduction [than the 10% presumptive reduction] is appropriate for a number of reasons. First, the overwhelming demand for capacity in each of the two earlier open seasons provides compelling evidence that the VIR has been set too high and is not close to the level that would lead to a relatively steady uptake of available capacity over the six-month enrollment period. Second, bids by large (100-500 kW) projects in the pilot program have averaged 35-39 cents/kWh, which is about 40 percent less than the current VIR for small projects. We expect the large projects to have somewhat lower costs than smaller ones because of economies of scale but not to such a significant extent. Third, there has been a significant increase in development of solar PV projects in the utilities' net metering programs, where projects owners can take advantage of state tax credits and incentive payments by the Energy Trust of Oregon. These incentives appear to provide the same return on investment as a VIR of about 32 cents/kWh, a reduction from current VIR levels of just over 40 percent. However, VIR payments may need to be higher than that to offset the greater risk a project owner bears under the pilot. At the same time, industry representatives noted that adopting such a significant reduction so close to the beginning of the enrollment period would have a detrimental effect on the industry. Taking all these factors into account, along with our concern about the impact on ratepayers of this program, we conclude that a reduction in the VIRs of 20 percent is appropriate for the enrollment beginning April 1st. OPUC Order No. 11-090, page 2

An evaluation of PGE's and Pacific Power's results from the April 2011 window suggest that the Commission's rationale for previously reducing the VIR by 20% continues to apply equally today as the Commission considers the next VIR.

<u>The Commission's 1st Reason for Previously Reducing the VIR by 20%:</u>

The Commission stated, based on experience prior to the April window, that overwhelming demand for capacity suggested that the VIR was too high and would not lead to the desired outcome of a steady uptake of available capacity across the window. PGE's and Pacific Power's experiences in the April window suggest that this continues to be the case.

PGE's enrollment capacity was filled in 34 minutes for small facilities and under 4 minutes for medium. While somewhat longer than PGE's previous window, this was still nowhere near a steady uptake across the 6-month enrollment window. Pacific Power saw the capacity fill within 2 minutes for medium systems and 4 minutes for small in the last enrollment period, which is consistent with the results in earlier enrollment periods.

From a customer standpoint, it is important to achieve a market clearing VIR as quickly as practical in order to minimize the burden placed on non-participating customers.

The Commission's 2nd Reason for Previously Reducing the VIR by 20%:

The Commission previously discussed the spread between the bid-option results and the VIR as another indicator of the need to reduce the VIR by 20%. For the April window, the Commission noted that the previous VIR was about 40% above the average bid-option prices for large systems of between 35 and 39 cents. Even taking into account an expectation of some economies of scale between large and small systems, the Commission nevertheless was concerned about this 40% spread. During the April window, the average of all bids for large systems was approximately 33 cents. For winning bids, the average was 28 cents. Relative to the current VIR for small systems of 46.8 cents, this represents a spread of between 30 and 40%, respectively from the average of all bids and winning bids for large systems and thus remains a compelling basis for a 20% reduction.

The Commission's 3rd Reason for Previously Reducing the VIR by 20%:

The Commission previously referenced the development of solar facilities in PGE and Pacific Powers net metering program as an indication of market demand and a mark on the wall of relative economics from a customer-owner system standpoint. The Commission noted that with ETO and state tax incentives the effective price received is about 32 cents/kWh under this program, but that customers may need to be compensated somewhat more than that to take into account the relative risk of VIR payments that are a function of generation versus the ETO/state tax model where benefits are derived based on investment rather than output.

PGE and Pacific Power continue to experience robust interest in our net metering programs. From March through June 2011 PGE has interconnected 953.6 kW of additional net metering capacity, almost all of which is solar. This pace is at, or above, the record setting pace of 2010 for this program. Pacific Power has had similar results, interconnecting 950.2 kW of net metering capacity between March and June of 2011, a 30% increase over the same timeframe in 2010. Further, PGE's proposed VIR is approximately 15% above the equivalent net metered price with incentives. Finally, it will be worth continuing to watch the development of net metering capacity in light of the legislature's actions to significantly reduce state tax incentives. To the extent there continues to be robust growth in net metering capacity in spite of reduced levels of benefits, this would suggest that demand in this program may continue at lower levels of VIR compensation.

The Commission previously noted that the factors discussed above were being balanced with industry concerns about the proximity of their decision to the April window. In that case, the Commission made its decision on March 17, two weeks prior to the April 1st window. The Commission was understandably concerned that a more significant reduction [Staff had proposed a potential 30% reduction to the VIR] so close to the window could have a detrimental impact on participation. In the present case, the Commission's target for a decision is August 1st, two months prior to the start of the October window.

An appropriate VIR is one that provides enough incentive to fill enrollment capacity, but provides nothing further than what is needed to induce adequate demand. Once the VIR is at this appropriate level, subsequent enrollment windows should either result in no VIR change, or very small changes up or down. To date, PGE and PacifiCorp's experience with this program suggests that the Commission has yet to reach this equilibrium state and, as a result, PGE and PacifiCorp customers will pay substantially more than what is necessary for this program. PGE and Pacific Power respectfully request that the Commission lower the VIR by 20% for the October enrollment window.

DATED this 7th day of July, 2011.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **OPENING COMMENTS OF PORTLAND GENERAL ELECTRIC COMPANY and PACIFIC POWER'S ON THE VIR FOR OCTOBER 2011 ENROLLMENT WINDOW** to be served by electronic mail to those parties whose email addresses appear on the attached service list from OPUC Docket No. UM 1452. Hard copies for this filing will be mailed to the filing center.

Dated at Portland, Oregon, this 7th day of July, 2011.

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