BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1673

In the Matter of	)	
	)	
PUBLIC UTILITY COMMISSION	)	COMMENTS OF OREGON
OF OREGON	)	DEPARTMENT OF ENERGY
Report to the Legislature on	)	ON DRAFT REPORT
Effectiveness of Incentive Programs for	)	
Solar Photovoltaic Energy	)	

Introduction

The Oregon Department of Energy (ODOE) appreciates the opportunity to provide comments on the Draft Report to the Legislative Assembly – Investigation into the Effectiveness of Solar Programs in Oregon dated May 8, 2014. The draft report was prepared under Docket No. UM 1673 to implement 2013 House Bill 2893. Our comments focus on six issues that we recommend be addressed in the final report.

1. Valuation of potential net metering cost shifting is not appropriate

The report asserts definitively that net metering results in cost shifting from participating to non-participating customers.[1] It attributes the cost shifting to fixed costs that are incurred, but not paid, by participating customers whose solar generation reduces their purchased electricity, leaving non-participants to pay a higher share of fixed costs. The draft

[1] "These savings [on participants' electric bills] … do result in a cost shift to non-participating ratepayers." Draft Report at 28.

report estimates the value of these unrecovered fixed costs at approximately $0.06/kWh[2] and includes that value in the ratepayer costs summarized in Table A.2.4.

The department acknowledges that there are unrecovered fixed costs associated with net metering, and finds the discussion of fixed costs in Section VII useful to highlight that fixed costs are inherent in the retail energy rate not paid by net metering customers for self-generated energy. However, it is premature to provide a cost estimate for unrecovered fixed costs of $0.06/kWh without a quantitative analysis. More importantly, unrecovered fixed costs are not the appropriate measure of potential cost shifting. The appropriate measure of the cost of net metering borne by non-participating customers is the value paid by the utility for the solar energy (the customer's retail energy rate) minus the value received by the utility from the solar energy (the solar resource value).

The report should represent the cost of net metering to non-participating customers as the retail energy rate minus the solar resource value. This approach is aligned with informal comments by both PacifiCorp and Portland General Electric (PGE) earlier in this docket. PacifiCorp stated that "Benefits of the incentive programs can be quantified as the value less the cost."[3] PGE stated that "it is appropriate for utility customers to pay a fair value for the energy and associated energy benefits received from distributed generation because those benefits accrue to the utility system."[4] This approach is also consistent with the draft report, which states "the utility's (and ratepayers') cost is the retail rate minus the avoided cost,"[5] where "avoided cost" is described as representing the solar resource value in Table A.2.2.

[2] Draft Report, Appendix 2, in section titled "Non Participant (Utility Ratepayers)."
[3] PacifiCorp Comments in UM 1673, December 19, 2013, at 7.
[4] PGE Comments in UM 1673, December 19, 2013, at 2.
[5] Draft Report, Appendix 2, in section titled "Benefits of Incentive Programs."

The estimated solar resource value used in the draft report is $0.067/kWh, based on PGE's solar resource value determined using the standard avoided cost methodology in compliance with Order No. 12-136.[6]

Using this approach, for the purpose of this report, the cost of net metering to non-participating customers would be $0.11/kWh retail energy rate[7] minus the estimated $0.067/kWh solar resource value, or $0.043/kWh. In Table A.2.4, this estimated net metering cost of $0.043/kWh would replace the Fixed Cost values for the "ETO+RETC" and "ETO+BETC" scenarios, and would be added to the Incentive Cost to produce the total cost to ratepayers of net metered solar projects.

The report should further note that the estimated net metering cost might be reduced if distribution system cost savings and the value of avoided fuel price volatility were quantified and included in the solar resource value.[8]

2. Net metering penetration exceeds statutory threshold

The report states, "There is no limit on the cumulative generating capacity of net metering systems."[9] While this statement is true under ORS 757.300, it could mislead the legislature about the current status of net metering in Oregon. The report should inform the legislature that the net metering penetration in both Portland General Electric and PacifiCorp's networks has exceeded the statutory threshold of 0.5 percent, above which the Commission has the authority to limit the utilities' obligation to continue offering net metering to new customer-generators. Although there is no hard cap on net metering, the

[6] Draft Report, Appendix 2, Note under Table A.2.2
[7] This is the estimated retail energy rate used in the Draft Report at 35.
[8] ORS 757.360(2)(b)(5) includes these two elements as part of the solar resource value.
[9] Draft Report at 6.

current situation may create uncertainty in the market about the future potential of net metering.

3. Large project costs should be represented separately

Tables 6.1, 6.2 and 6.3 should include costs of projects installed as Qualifying Facilities (QFs) under PURPA and under the Solar Capacity Standard. Further, it is unclear whether or not the QF and Solar Capacity Standard projects, which all received Energy Trust of Oregon (ETO) and Business Energy Tax Credit (BETC) incentives, are included in the ETO and BETC cost figures. Because the QF and Solar Capacity Standard projects are large enough to enjoy economies of scale and do not utilize net metering, they should be represented separately from the net metering programs so as not to skew the net metering data. They should, however, be included in the overall costs of the ETO and BETC programs. Department staff is ready to support PUC Staff in parsing out the large projects and representing their costs separately.

4. Commercial and third party projects benefit from accelerated depreciation

The draft report should mention the availability of accelerated depreciation of solar project investments under the Modified Accelerated Cost Recovery System as a federal tax incentive. Accelerated depreciation can add significant financial benefit to businesses investing in solar projects, including third-party owners of residential systems. Businesses may receive a federal tax deduction for depreciation of the capital cost of a solar project based on a 5-year depreciation schedule. Prior to 2014, a 50 percent bonus depreciation was available in the first year of the 5-year depreciation schedule. The net present value of the accelerated depreciation to the project investor can be up to 25 percent of project cost, depending on the investor's corporate tax rate and discount rate. This depreciation benefit is not available to individual taxpayers (e.g. homeowners).

5. Opportunity to leverage federal incentives through 2016

The draft report correctly describes the December 31, 2016, expiration of the federal investment tax credit (ITC) for individual taxpayers and reduction of the federal ITC from 30 percent to 10 percent for businesses investing in solar projects.[10] The report should highlight the state's near-term opportunity to leverage the availability of the federal ITC over the next two and a half years before its expiration/reduction. If the federal ITC expires/reduces as scheduled after 2016, the cost to Oregon taxpayers and ratepayers to achieve the same volume of solar capacity under the state's solar incentive programs will increase.

6. Clarify that BETC program has ended

In describing solar projects that received a Business Energy Tax Credit (BETC), the report should clearly state that the BETC program has ended and no solar projects received a BETC after 2012. In particular, the report should clarify that the BETC program costs represented in tables 6.1 and 6.2 are from 2012, not 2013, because the BETC program was no longer active in 2013.

This concludes the department's comments.

Dated this 23rd day of May, 2014.

Respectfully submitted,

/s/ Kacia Brockman
Energy Policy Analyst
Oregon Department of Energy

cc: UM 1673 service list

[10] Draft report at 34.

CERTIFICATE OF SERVICE

I hereby certify that on May 23, 2014, I served the Oregon Department of Energy's comments on the draft report to the legislature on effectiveness of solar photovoltaic programs to all parties in UM 1673 by delivering a copy by electronic mail only, as all parties of the service list have waived paper service.

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Dated this 23rd day of May, 2014.

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