

To: Oregon Public Utility Commission
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via email to: PUC.hearings@state.or.us

From: Renewable Northwest
Megan Decker, Chief Counsel

Re: Request for Comments on VRET Structure

Date: July 25, 2014

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Oregon PUC staff seeks to build a common understanding of different voluntary renewable energy tariff (VRET) program design concepts before moving on to study the impacts of offering VRETs. Renewable NW supports Staff’s goal and credits Staff’s July 3 “Framework for VRET Models Table” for advancing dialogue toward that goal.

Staff’s Framework Table is organized first by resource owner. We recognize that many of the most significant impacts of a VRET from the Commission’s perspective— *e.g.*, impacts on non-participating customers and competitiveness considerations— depend on the identity of the resource owner. At the same time, there are VRET Models in which allowing more than one type of eligible resource owner may be ideal. We have tried to cross-reference among multiple rows in the Framework Table to capture this. In addition to that, we offer this separate narrative to organize our main points by model structure rather than by ultimate resource owner.

Section A recommends a VRET model focused on customer-driven resource selection, and explains how that model differs both from the models described in the Framework Table (primarily Rows 1.a., 1.b., and 6) and from Direct Access (in response to questions raised in Rows 1.a., 3.a., and 6 about whether this model is already accommodated by Direct Access). We do not address Direct Access programs directly or recommend changes to them, because that is outside the scope of this docket; however, understanding whether a VRET model is a helpful, additive complement to Direct Access programs will be an important part of Staff’s examination, so we have raised some potential areas for consideration in answering that question.

Section B recommends a VRET model focused on utility VRET portfolio creation using RFP procurement to supply least cost renewable resources to the VRET portfolio from a variety of bidders. This is represented by Rows 1.c. and 1.d., supplemented by Rows 2.c/d. and 3.c/d. to represent this variety of bidders. We offer Staff some considerations related to the timing of procurement relative to customer demand under these models.

We believe that offering both of the two structures outlined in A and B below is the best way for utilities to serve customers' renewable energy demands and promote expansion of carbon-free electricity generation. In Section C, we recommend that models based on unbundled RECs not be explored further in this examination, because they represent an option for meeting environmental goals that is already available to all customers.

A. Customer-driven resource selection & negotiation

The Commission should study at least one VRET model that allows customers to connect directly to supply from specific renewable energy projects. Staff's Framework Table captures this general concept in Rows 1.a., 1.b., 3.a., 3.b., 4, and 6 (and maybe also Row 2). We have added Rows 1.x., 3.x., and 4.x. to distinctly describe the model that we recommend for further study, but it may be possible to blend our recommendation with other rows before moving forward with the study.

The basic concept of Rows 1.x., 3.x., and 4.x. is that a customer could negotiate price and terms for the output of a renewable energy facility directly with the facility developer, and have the output from the facility credited against the customer bill. Key questions about this model are addressed in the following order below: Relationship to Direct Access; Relationship to RMP Utah SB 12 Model; Eligible Owners; Relationship to Row 6; and Relationship to Net Metering.

- Relationship to Direct Access: In Oregon, any direct supply relationship between a customer and a third party could be described as "similar to direct access." A key question for the Commission's study should be whether there is a VRET model that is sufficiently distinct from Direct Access to be worth pursuing as a complementary platform for renewable energy supply.
 - Staff's Row 1.a. explicitly defines the utility-customer relationship as similar to Direct Access. This begs the question of whether a model similar to 1.a. could be sufficiently distinct from Direct Access to be worth pursuing as a complement. We added Row 1.x. to differentiate from Row 1.a. and begin to define a different model for exploration.
 - A VRET model like the one described in Row 1.x. could be sufficiently distinct from Direct Access if it took a different approach to elements of the Direct Access structure that are fundamental and unlikely to change. Areas to consider:
 - *Partial load*: Some customers may wish to participate with a particular renewable energy project that is not of a size or nature to serve its entire load. To the extent that Direct Access fundamentally requires a customer to take its entire load at a single point of delivery off of the utility's cost-of-service rates, partial load service may be a distinction worth exploring.

- *Load service/ancillary services*: To the extent that Direct Access fundamentally makes a scheduling ESS responsible for matching generation to load and procuring ancillary services for participating customers, it is worth considering a program structure that enables a participating customer to continue to have the utility perform these functions.
 - *Metering/billing relationship*: This model could be structured to credit at a defined green tariff credit rate the kWhs produced from the renewable energy facility on the customer’s standard bill, retaining something closer to the standard utility-customer billing relationship than with Direct Access.
 - *Aggregation*: Direct Access does allow ESSs or EAs to aggregate customers to contract for electricity supply, but some customers’ ability to access renewable energy could be improved by allowing the utility to serve the function of aggregating a single customer’s multiple meters for purposes of energy supply from a designated renewable energy resource or resources.
 - The Commission’s study will also need to identify elements that must be treated similarly between a VRET model and Direct Access in order to maintain a level playing field between new and existing offerings. Transition charges are an example of an element that would need a parallel structure across both offerings.
- Relationship to RMP Utah SB 12 tariff: Proposed Row 1.x. has one major structural difference from the Rocky Mountain Power Utah tariff described in Row 1.b.—it eliminates the mirror contracts. The mirror contracts enable the utility to see the prices negotiated between the customer and third party. Particularly if the utility is also participating in the market for customer renewable energy supply, this element is anti-competitive and may even raise code of conduct issues. We would not recommend further consideration of Rows 1.b. and 3.b. as currently described. Rather, we would recommend altering Rows 1.b. and 3.b. to remove the mirror contracts, or simply replacing them with proposed Rows 1.x., 3.x. and 4.x.
 - In some other key respects—*i.e.*, customer choice of resources, resource ownership eligibility—the Utah tariff can be considered a model. However, we do not intend at this point to endorse the size limitations in SB 12 or the particular charges proposed by RMP’s tariff filing in Utah.
- Eligible owners: In the RMP Utah tariff, renewable resources can be owned by a third party, the purchasing customer, or the utility. In Staff’s Framework Table, only third-party ownership is contemplated. We believe it would be worthwhile to examine at least customer and utility affiliate ownership under this model. Therefore, we have added Rows 3.x. and 4.x.
 - Customer ownership of both on-site and off-site resources could be accommodated through a model similar to Row 4.x. For off-site resources, we are unsure why a customer-owner should be treated

differently from any other third-party owner (assuming the customer has appropriate FERC authority). For on-site resources not eligible for existing on-site generation tariffs (net metering and partial requirements), this model or an adaptation of it could be explored as a viable alternative.

- Relationship to Row 6: We are interested in further definition of Row 6, but as described in Staff's Framework it appears to be a stripped-down version of Direct Access (or, said differently, a fuller version of retail restructuring), available only to suppliers that deliver a threshold amount of renewable energy. This may be difficult to rationalize with the existing Direct Access program.
- Relationship to net metering: We have not yet considered rate design for the 1.x.-type concept, but we note that a green tariff bill credit should not necessarily be assumed to work the same way as a bill credit under net metering. Other states like North Carolina and California have worked through (or are still working through) models for green tariff bill credits in a manner that is not necessarily equivalent to net metering policies (*i.e.*, not necessarily at the retail rate, not necessarily with the same netting provisions). We would be happy to give more thought to rate design at the appropriate point in the process.

We acknowledge that many details of the approach we offer remain to be defined precisely, and differences and similarities from Direct Access and the RMP Utah tariff remain to be explored fully in Staff's investigation. We hope that these comments and Rows 1,3, and 4.x. give Staff and stakeholders a better sense of the basic concept that we encourage the Commission to explore.

B. Utility-driven portfolio creation

The Commission should also study a VRET model that enables the utility to build a portfolio of renewable energy resources to offer to customers as bundled renewable energy supply. This general concept is represented in Staff's Framework Table by Rows 1.c., 1.d., and possibly 2. Because we are not certain what Row 2 intended for procurement structures, we added Rows 2.c/d. and 3.c/d. to describe utility-owned supply as part of the portfolio of resources offered under this same type of model.

Rows 1.c. and 1.d. (and 2.c/d.) generally describe a model in which utilities aggregate customer demand for bundled renewable energy supply and procure a portfolio of resources to meet that demand. The best way to ensure that the utility is offering customers the most cost-competitive portfolio of renewable resources is for the utility to conduct an RFP in which a variety of bidders compete. Once the portfolio is assembled, customers could be served under a regulated utility tariff that delivered bundled electricity and RECs from the portfolio of renewable resources.

The key difference between 1.c. and 1.d. is the timing of procurement and length of contract relative to customer demand. Under 1.c., the utility would wait for customer demand to materialize before putting out an RFP for renewable energy to supply the “VRET load.” Waiting for demand to materialize would seem to minimize the risks associated with procurement ahead of demand. However, a customer would not be likely to commit to supply under a tariff for which the prices are not yet known. (In the Duke North Carolina tariff, customers make an initial election but reserve their final commitment until after the portfolio resources and their costs are known.) Procuring a competitively-priced portfolio ahead of customer demand, per 1.d., would be more streamlined. The Commission would need to consider how the utility and non-participating customers would utilize unsubscribed portions of the VRET portfolio. The Commission will also need to consider who takes the risk for customer participation through the length of the long-term contract that new renewable energy supply is likely to require.

We have included Row 2.c/d. in order to recognize that utility ownership options may be desired by some stakeholders and to illuminate how this model could accommodate utility ownership through participation in RFPs. We also recognize that implications of utility ownership for statutory considerations of risk and cost to nonparticipating customers and competitiveness may be more difficult to resolve.

C. Miscellaneous

As indicated in the Framework Table, we do not believe that Row 5 is worth further examination. Customers have multiple avenues for meeting environmental goals by matching unbundled REC purchases to electricity usage. The Commission and other stakeholders’ time and resource investment in VRET examination should focus on new avenues for renewable energy procurement.

It is also worth noting that Row 5, unlike any of the other rows, addresses the type of renewable energy supply that a VRET could offer. We encourage the Commission not to lose sight of the resource parameters we recommended in Part 1 of our Statement of Principles as it defines the models to be evaluated.

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Framework for VRET Models Table, July 3, 2014

<u>Basic Structure</u>			
Resource Owner	Utility Role	Relationships	Notes/Comments
	(1.a.) Regulated utility "passes- through" the renewable energy without taking ownership.	3rd party and customer negotiate contract for renewable energy service. Regulated utility and customer have relationship that may be similar to direct access structure.	~Is this the same as Model 6 (3rd Party Transmission VRET?) Not necessarily. It is described here as being similar to Row 6 or Direct Access; but the Commission should explore a distinct platform (see 1.x). ~Can this already occur through Direct Access regulations? Many large customers who are comfortable taking their whole loads at a single point of service off the utility and having an ESS manage scheduling and ancillary services for that load can have their renewable energy needs served effectively through Direct Access. However, the Commission should consider the potential benefits of a distinct, renewable-energy specific alternative. ~In this model, could the regulated utility act like a broker (by matching up the 3rd party generator with customers)? This is not necessary if 1.c/d, 2 are available; not likely an attractive or natural role for utilities.

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<p>(1.) Third Party (IPP, ESS)</p>	<p>(1.b.) Regulated utility is the middleman between a 3rd party and customer(s) that are contracting for renewable energy. Regulated utility takes ownership of power through one contract and sells it to customer(s) through second contract(s).</p>	<p>Customer and 3rd party negotiate for renewable energy service. First contract between 3rd party and the regulated utility to purchase electricity for resale. Second contract(s) between customer(s) and regulated utility for the same price and duration as first contract. The first contract terminates if customer(s) defaults on second contract(s).</p>	<p>~This is the model generally described in the Rocky Mountain Power filing in Utah (Docket 14- 035-T02). Yes, which was prompted by passage of SB 12 in the Utah 2012 legislative session. ~Is this the regulated utility acting like a marketer (because they take ownership of the power)? ~This double-contract mechanism creates unnecessary competitiveness and possibly code of conduct issues. Row 1.x. retains much of the same structure and utility-customer-3rd party relationship, but resolves the concern created by mirror contracts.</p>
	<p>(1.x.) Regulated utility takes delivery of energy from renewable energy project(s), credits customer bill for project output (at credit amount TBD), and serves balance of customer's energy/capacity need (if any) at cost of service rates. Utility remains primary point of contact for billing and (by customer choice) load management and ancillary services.</p>	<p>Customer and 3rd party (or see 3.x. - utility affiliate and 4.x. - customer itself) negotiate bilateral contract for energy output and RECs from new renewable energy project(s). Contract terminates if customer defaults.</p>	<p>~Row 1.x is different from 1.a./Direct Access in the following ways: renewable energy only, allows partial load, customer may have utility manage load and ancillary services, and may simplify aggregation for large customers with multiple meters by having utility as single point of contact. ~This is similar to 1.b, but avoids contract price and terms being visible to regulated utility which may also be seeking to serve VRET market. ~The rate credit methodology needs further development; looking to other states would be beneficial. ~Risks are lower because customer, not utility, enters long-term contract.</p>

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	<p>(1.c.) Regulated utility aggregates customers into a "VRET load" and puts that aggregated load out for bid. Regulated utility contracts with third parties to serve the "VRET load."</p>	<p>Once regulated utility puts out the RFP, then IPPs, ESSes, marketers can respond through a competitive process to serve the "VRET load."</p>	<p>~Are there wholesale/FERC implications here? Not aware of any. Generators would need market-based rate authority, but utility is just buying wholesale energy and using it to serve retail load. ~The primary difference between 1.c. and 1.d. is the timing of procurement relative to customer demand. Waiting for customer demand to materialize before procurement would minimize risk, but might be impractical.</p>
	<p>(1.d.) Regulated utility aggregates 3rd party RE generators and purchases the output through fixed price, long term contracts. The regulated utility offers that output to the customers through a "subscription" process.</p>	<p>Regulated utility holds contracts with 3rd party RE generators. Customers "subscribe" on a long term basis to the aggregated pool of RE resources at fixed price.</p>	<p>~As described in WRI Green Tariff white paper. ~What does subscribe mean here (is it a contract? Is it a separate regulated utility schedule that the customer can sign up for)? A separate regulated utility tariff structure that the customer could elect for a defined period of time. ~Are there wholesale/FERC implications here? Not aware of any at this time.</p>
<p>(2.) Regulated Utility</p>	<p>Regulated utility owns and operates renewable resource(s) and delivers power to customer.</p>	<p>Regulated utility and customer(s) negotiate long-term contract(s) for non-system renewable energy.</p>	<p>~Is there a potential for incumbent utility advantage? Competitiveness would be an important consideration, per the statute. Enabling customers to reach the lowest cost renewable resources is another frame for this issue. ~How would the regulated utility ensure that costs are not shifted to non-participating customers (use of ring fencing or something similar?)? Not certain - this is a complication that would need to be managed.</p>
	<p>(2.c/d.) Same as 1.c. and 1.d. except that utility-owned bids would be eligible in RFP for supplying VRET load.</p>		<p>~Determine whether potential for incumbent utility advantage could be managed through existing RFP tools. ~How would the regulated utility ensure that costs are not shifted to non-participating customers (use of ring fencing or something similar?)? Not certain - this is a complication that would need to be managed.</p>

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(3.) Utility Affiliate	(3.a.) Regulated utility "passes- through" the renewable energy without taking ownership.	Utility affiliate and customer negotiate contract for renewable energy service. Regulated utility and customer have relationship that may be similar to direct access structure.	~Essentially the same as third party row (1.a.), except with utility affiliate being the 3rd party and potentially needing additional protections to ensure no incumbent utility advantage. ~Can this already occur through Direct Access regulations? See comments under 1.a. above.
	(3.b.) Regulated utility is the middleman between a utility affiliate and customer(s) that are contracting for renewable energy. Regulated utility takes ownership of power through one contract and sells it to the customer(s) through a second contract(s).	Customer and utility affiliate negotiate for renewable energy service. First contract between utility affiliate and the regulated utility to purchases electricity for resale. Second contract(s) between customer(s) and regulated utility for the same price and duration as first contract. The first contract terminates if customer(s) defaults on second contract(s).	~Essentially the same as third party row (1.b.), except with utility affiliate being the 3rd party and potentially needing additional protections to ensure no incumbent utility advantage. See comments under 1.b. above.
	(3.x.) Same as 1.x., except utility affiliate owns the renewable resource.		Potentially need additional protections to ensure no incumbent utility advantage.
	(3.c/d.) Same as 1.c., 1.d., and 2.c/d., except utility affiliate could bid in RFP to supply VRET load.		Potentially need additional protections to ensure no incumbent utility advantage.

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(4.) Customer Owned	<p>Regulated utility role depends on the customer's specific load and resource. Could involve distribution and back-up/supplemental services; "firming and shaping."</p>	<p>Assuming customer self-generates renewable energy on-site, but will likely require other regulated utility services (e.g. back-up/supplemental services; "firming and shaping").</p>	<p>~Can this already occur through existing schedules (such as PGE Schedule 75, Partial Requirements)? It is not clear whether partial requirements tariffs designed for cogeneration would work for on-site variable renewable energy resources. A structure like the one described in 1.x. could be a viable alternative for on-site variable generation not eligible for net metering. ~How would this structure interact with current net metering policy and rules? Most on-site projects will be eligible for net metering. Larger projects could be facilitated through a green tariff bill credit structure described in Row 4.x. ~Does this model change if the customer owned resource is not on-site? If the customer-owned resource is not on-site, then a customer-owner with FERC authority to be a generator should not be treated differently than other third parties. See 4.x.</p>
	<p style="color: red;">(4.x) Same as Row 1.x, except customer owns the renewable resource.</p>		<p style="color: red;">~Only relevant for off-site projects and on-site projects that do not meet net-metering eligibility requirements (i.e., because of project size) or partial requirements tariffs (i.e., because of intra-hour variability?).</p>
	<p>(5.a.) Regulated utility continues to provide energy and services as it does with a cost-of-service customer today.</p>	<p>Customer buys renewable attributes only (unbundled RECs) from the market (marketer website, regulated utility program, etc.). The entity from which the customer buys unbundled RECs retires them on behalf of the customer.</p>	<p>~Likely cons in the "further development of significant renewable energy" statutory consideration. Could this be lessened by putting strict requirements on the renewable attributes of the RECs? This concept should not be further explored in the Commission's study. Customers already have multiple avenues for meeting environmental goals by matching unbundled REC purchases to electricity usage.</p>

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<p>(5.) Market-Based (REC Product)</p>	<p>(5.b.) Regulated utility buys bundled RECs from the market and re-sells them to the customer(s).</p>	<p>Customer buys energy together with renewable attributes (bundled RECs) from regulated utility. Regulated utility retires bundled RECs on behalf of the customer.</p>	<p>~Likely cons in the "further development of significant renewable energy" statutory consideration. Could this be lessened by putting strict requirements on the renewable attributes on the RECs? ~Are there wholesale/FERC implications here? ~Is a similar model currently being used by ESSes? ~How would the regulated utility ensure that costs are not shifted to non-participating customers (use of ring fencing or something similar)? This concept should not be further explored in the Commission's study. Customers already have multiple avenues for meeting environmental goals by matching unbundled REC purchases to electricity usage.</p>
<p>(6.) 3rd Party (transmission VRET)</p>	<p>Open access, transmission only service by regulated utility</p>	<p>3rd Party and customer contract for energy with a specific threshold of renewable content.</p>	<p>~Is this the same as Model 1.a.? ~Do the energy balancing and ancillary services come from the regulated utility or the third party? If the sole utility role is transmission service under the OATT, this concept appears to be a stripped-down version of Direct Access. Look forward to further definition of this concept.</p>