

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1505**

In the Matter of
Public Utility Commission of Oregon
Solar Photovoltaic Program

STAFF'S OPENING COMMENTS AND
RECOMMENDATIONS

On January 1, 2011 the Commission submitted a report to the Legislative Assembly on the Solar Photovoltaic (PV) Volumetric Incentive Rate (VIR) Pilot Program (Pilot). In the preparation of this report, the Commission received written and oral comments in Docket UM 1505. A summation of these recommendations and concerns was listed on page 15 of the legislative report in a bulleted format.

- Reduce the incentive rate more than 10 percent before the next enrollment period
- Conduct research on non-winning applicants
- Change the application process and current online system.
- Require regular reports on capacity installed
- Report annually rather than every two years
- Deploy the entire capacity over a 2 year period rather than 4 year period.
- Eliminate the bidding approach for large-scale systems
- Change the insurance requirement
- Broaden the goals of the pilot program to include job creation, local economic impact, and environmental impact
- Adopt an "avoided cost" based approach to set rates consistent with the recent Federal Energy Regulatory Commission order

In the interest of improving the design of the Pilot, the Commission has indicated its interest in understanding and potentially addressing parties' concerns and recommendations on how to improve the pilot program. Staff will provide recommendations on the following three issues: (1) whether a lottery should be submitted for the first-come first-served application process, (2) whether the competitive bid mechanism should be substituted for the net-metering program for small- and medium-scale projects, and (3) whether information regarding bids submitted in the Pilot should be disclosed.

Per the agreed-upon schedule in Phase II of UM 1505, parties will be filing simultaneous comments. Staff's recommendations address several but not all of the issues on the bulleted list. When it files its reply comments on February 28, 2011, Staff intends to respond to all issues addressed by the parties in opening comments.

Summary

The application process, which currently awards reservations on a first-come first-served basis,¹ has garnered comments from parties due to excess demand within the first two open enrollment periods. Staff recommends changing to a lottery system for the upcoming open enrollment period. In order to accomplish this change, Staff recommends that the scheduled April 1st window be delayed to May 1st.

Capacity reservations for large-scale systems are currently awarded on the basis of competitive bidding.² It has been suggested by parties that using an auction system for not only the large-scale, but also the small- and medium-scale systems, is warranted. With regard to medium-scale systems, Staff recommends that starting with the October 1st open enrollment period half of the capacity allocation for medium-scale systems be awarded based on an auction mechanism identical to that used for the large-scale system. Staff continues to believe an auction mechanism should not be used for small-scale systems.

Lastly, Staff is supportive of making publicly available all bid prices for the medium- and large-scale bid projects.

Application Process

The current application process awards the allotted capacity on a first-come first-served basis. This methodology was decided upon in Order No. 10-200, with the Commission agreeing with Renewable Northwest Project (RNP) that “a first-come first-served reservation system, with a rigorous installation deadline, works best for the small-and medium-scale systems.” The Commission went on to state that it would monitor the reservation process and revisit any issues with this process if necessary.

Several parties have asserted that the current method of first-come first-serve has incited individuals to develop computer programs to auto-populate the on-line application at the time of the open enrollment window. There have also been claims that participants have attempted to gain an advantage in the application process by contracting with multiple fast typists and renting out computer labs with fast data connections. Some parties believe that these participant initiatives make the current application process an unfair process that awards those that are willing to spend additional monies to get their application to the front of the line.

At a Staff workshop on January 20, 2011, PacifiCorp and Portland General Electric (PGE) discussed the technical difficulties of changing the application process to a lottery type system. They stated that the process of changing from a first-come first-served method would take more than 3 weeks and would require

¹ See OAR 860-084-0195(1).

² *Id* (2).

additional time to educate potential applicants of the change in the process. In addition, this change in methodology may require additional administrative staff to manage the presumably greater number of applications.

The high level of demand has seemingly created an incentive for parties to find innovative ways to see that their application is submitted as soon as possible once the window is open. Staff believes that this level of demand is primarily due to the current price level of the VIR, but with the consistent lowering of that price the number of applications for capacity reservations will fall.

The Commission has scheduled its decision of the level of the VIR for its March 22nd Regular Public Meeting. The VIR update mechanism, adopted by the Commission in Order 10-198, calls for a rebuttable presumption of a 10 percent reduction in the VIRs for the April 1st reservation window. Given the level of demand in the previous reservation windows, Staff believes that a decrease of more than 10 percent is appropriate and will make a recommendation for a rate reduction that is greater than 10 percent.

Staff recommends that for the upcoming enrollment period the Commission require the utilities to implement a lottery system, and delay the open enrollment window to May 1st. By delaying the window by one month it will allow the utility to make changes to its system and educate the public on its change in process.

Competitive Bidding

In Order No. 10-198 the Commission adopted a competitive bidding option for consumers with large-scale systems, and a net metering approach for small- and medium-scale systems. The Commission decided that this dual approach would demonstrate the use and effectiveness of VIRs for electricity produced by the PV systems, as required by ORS 757.365, and meet its statutory responsibility to ratepayers.

One of the Commission's reasons for adopting the net metering approach for small-scale and medium-scale systems was that according to comments received by parties, these customers would be less sophisticated and less willing, or able, to participate in a more complex bidding process.³ One requirement of the bidding approach is that the generator must obtain Federal Energy Regulatory Commission (FERC) market-based rate authority for sales from these PV system's. It was thought that this process might prove too daunting or complex for an installer of a system less than 100 kW.

Staff believes that participants in the medium-scale category have shown sophistication and initiative in order to get their applications accepted in the first-come first-served process. Therefore, Staff recommends, starting with the

³ See Order No. 10-198, page 9.

October 1 enrollment window, splitting the capacity for the medium-scale allotment to allow PGE and PacifiCorp customers with medium-scale systems to use the competitive bidding option or the net-metering option.

The allotted capacity for medium-scale customers of PGE for the October 1st enrollment period is 701 kW. Staff proposes that 351 kW be awarded by competitive bidding. The bidding would potentially award 3.5 to 35 systems based on the size of medium-scale systems (10 kW to 100 Kw). The remaining 350 kW would continue to be awarded based on the first-come first serve process and would be net-metered systems. The allotted medium-scale capacity for PacifiCorp's customers for the October 1st enrollment period is estimated to be 461 kW, and would be split similarly.⁴

Staff recommends that its proposed competitive bidding option for half of the medium-scale allotment should mirror the process for large-scale systems with regard to request for proposal language (RFP), timing of the RFP, bidder's response, awarding of the capacity, and winning bid criteria. In addition, Staff recommends that the medium-scale projects be allowed to participate in both the lottery and bidding mechanism. The utilities would need to award the capacity in the lottery method prior to due date of bids in the competitive bidding mechanism.

Staff believes that splitting the allotment for the medium-scale systems into both the net metered approach and a competitive bid option will improve the cost-effectiveness of the pilot programs. Also, expanding the competitive bidding option to the 10 kW to 100 kW size systems will reduce the perverse incentive associated with net metering that only allows the VIR to be paid up to the annual usage of the metered customer.

Staff continues to support the Commission's decision that the small-scale systems should not be competitively bid. Staff believes that a bidding approach, which requires customers to have authority to sell energy at market-based rates, is too daunting and burdensome for the small-scale system owner and installer.

Bidding Information

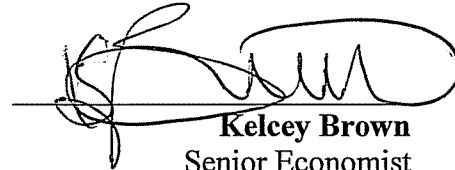
The Commission has yet to decide whether or not the competitive bidding information should be disclosed. While there is a concern that these bid prices may influence subsequent auction results, Staff believes that the one-year gap between bids allows for sufficient change in cost and market structure to reduce any influence the previous bid prices may have on auction results. Also, in view of the Commission as a public agency, and our preference towards public

⁴ The proposed bidding mechanism for medium-scale systems will occur once per calendar year at the October 1 enrollment window. For the remainder of the pilot program the April 1 window will award one-quarter of the year's medium-scale capacity allotment for net metering. The October 1 window will award one-quarter of the year's medium-scale capacity allotment for net metering plus half of the medium-scale capacity allotment for competitive bidding.

disclosure, Staff recommends that the Commission require the disclosure of all bid prices.

This concludes Staff's comments.

Dated at Salem, Oregon, this 11th day of February, 2011.

A handwritten signature in black ink, appearing to read 'Kelcey Brown', written over a horizontal line.

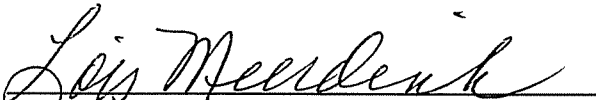
Kelcey Brown
Senior Economist
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CERTIFICATE OF SERVICE

UM 1505

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 11th day of February, 2011 at Salem, Oregon.

A handwritten signature in cursive script that reads "Lois Meerdink". The signature is written in black ink and is positioned above a horizontal line.

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