ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 25, 2017

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **July 25, 2017**

DATE: July 18, 2017

TO: Public Utility Commission

FROM: JP Batmale

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1020) Staff review of appropriateness of commingling funds collected from ratepayers participating in voluntary programs with funds collected from all ratepayers through general tariffs.

STAFF RECOMMENDATION:

Staff recommends that the Commission limit the awarding of grant funds from the utilities' voluntary programs to non-profit organizations – specifically, an Oregon Native American Tribe, a 501(c)3, municipality, university, school, or hospital (Non-Profit) – unless the utility can demonstrate that the project has a compelling public interest. Staff recommends the Commission direct the utilities and Energy Trust to adopt Staff's suggested operating parameters to guide any future commingling of funds from voluntary programs and the Energy Trust for eligible renewable projects. Staff also recommends that the Commission specify that qualifying facilities may use voluntary funds and may commingle with ratepayer funds from Energy Trust, but only if the project is owned by a Non-Profit and the suggested operating parameters are utilized.

DISCUSSION:

Issue

Under what circumstance it could be appropriate for voluntary renewable program funds to be combined with ratepayer funds in support of renewable energy projects.

Applicable Rule or Law

ORS 757.603 requires the electric utilities to provide a portfolio of rate options to residential customers. Commission Order No. 16-123 directed Staff to revisit the appropriateness of allowing renewable projects to receive funds collected from ratepayers participating in the voluntary program and funds collected from all ratepayers through general tariffs.

Analysis

Background

On March 22, 2016, the Commission issued Order No. 16-123. The order directed Staff to revisit the appropriateness of allowing a renewable resource to blend (a.k.a., commingle) funds collected from voluntary renewable programs with funds collected from all ratepayers through general tariffs to support to renewable energy projects.

For the public meeting Staff submitted a Public Meeting Memorandum outlining its understanding of the scope of the review ordered by the Commission, which is as follows:

1. Funds collected from ratepayers participating in the voluntary programs include Pacific Power's (PAC) Blue Sky Community Grant (BSCG) and Portland General Electric's (PGE) Renewable Development Fund program. [1]
2. Funds collected from all ratepayers through general tariffs include:
    a. 17 percent of the 3 percent public purpose charge, which is directed to the ETO for Renewable programs, and
    b. Any utility-owned and rate-based project.
3. Revisiting the "appropriateness of commingling of funds" collected from the above two categories of ratepayers asks for an analysis and separate report back to the Commission as to whether using funds from each category to support the same project should be continued.[2]

To address concerns that blending funds from voluntary programs with funds collected under the utility's general tariffs is not in the interest of ratepayers, Staff recommended a temporary suspension of blending of funds.[3] This suspension would continue until Staff finished a review of the matter and reported on the appropriateness of blended funding to the Commission. PGE requested that Qualified Facilities (QF's) operating under standard rate and renewable rate power purchase agreements (PPA) be included

[1] The mechanism to collect these renewable grant funds from voluntary program participants is described in approved tariff filings for each utility. *See* PAC Schedules 211 and 212. *See* PGE Schedules 7 and 32.

[2] List of items is taken verbatim from Staff Public Meeting Memorandum precipitating Order No. 16-156.

[3] *See* Order No. 16-156, Appendix A, Staff memo to Commission.

in Staff's appropriateness review of blended funding. The Commission agreed with PGE's request.[4]

Overview of Funds

The ability to properly attribute the impact or influence of incentives, funds or activities on renewable project development is fundamental to determining ratepayer value. The blending of voluntary and ratepayer funds to support a renewable project makes determining program attribution difficult.

The two sources of funding are structured differently. The purpose of voluntary programs is to give participants the ability to fund "green" activities that are *additional* to what is required by the RPS.[5] Ratepayer participation in these programs is entirely voluntary. The statute governing voluntary programs is ORS 469A.205.[6] The voluntary programs allow the purchase of RECs to "green" participants' power. They also make grant awards to select renewable energy projects. Grant awards now follow guidelines established by the utilities with input from the Commission's Portfolio Options Committee (POC) and from Staff.[7] The voluntary programs do have some latitude with regards to the types of projects they fund. In general, the grant programs mostly direct awards to small, new, renewable energy projects associated with non-taxable entities.

Ratepayer programs are funded through the Public Purpose Charge (PPC) and overseen by Energy Trust's renewable energy program.[8] Per the enabling legislation, Energy Trust's incentives are designed to reduce the above market costs of new renewable energy resources below 20 MW in size. Additionally, Energy Trust claims some portion of RECs from all of the projects it funds on behalf of ratepayers. Energy Trust does not monetize these RECs but rather holds them on behalf of ratepayers or transfers the RECs to the appropriate utility to help meet RPS obligations.[9] Contributions by ratepayers toward the PPC – and subsequently Energy Trust's renewable program – are not voluntary.

80 renewable energy projects have received both voluntary funds and ratepayer funds since 2006.[10] The blending of funds to support renewable projects reflects pragmatic cooperation between the utilities and Energy Trust, not an explicit state policy. To this

[4] *See* UM 1020, Commission Order No. 16-156, page 1 bottom of paragraph.
[5] *See* 469A.205(2), comments filed by Bryce Dalley of Pacific Power under UM 1020 on June 9, 2016, and comments filed by Karla Wenzel of PGE under UM 1020 on June 13, 2016.
[6] *See* https://www.oregonlegislature.gov/bills_laws/ors/ors469a.html for statute.
[7] *See* https://www.pacificpower.net/blueskyfunds for more information on PAC's BSCG guidelines and project history. *See* https://www.portlandgeneral.com/business/power-choices-pricing/renewable-power/install-solar-wind-more/renewable-development-fund or Order No. 16-156 for more information on PGE's recently updated RDF guidelines.
[8] Per the PPC law, SB 1149, customers that use over 8,760 MWh/year may choose to self-direct their renewable energy obligation under the PPC toward projects of their own choosing. This includes directing these PPC funds toward voluntary programs. The Oregon Department of Energy administers the self-direction program for the PPC, *see* https://www.oregon.gov/energy/energy-oregon/Pages/Public-Purpose-Charge.aspx for more information.
[9] *See* Energy Trust REC Policy for more information, http://assets.energytrust.org/api/assets/policies/4.15.000-P.pdf
[10] *See* Energy Trust comments filed under UM 1020 on June 9, 2016.

end, neither the POC nor the Commission has officially offered guidance on the blending of funds to support renewable project development prior to Order No. 16-123.

Stakeholder Feedback

In May 2016 Staff sent a letter to stakeholders proposing a timeline for completing its blended funds review. Staff conducted a workshop with stakeholders on June 9, 2016. The purpose of the workshop was to receive stakeholder feedback. To help guide feedback at the workshop, Staff posed a series of questions.[11] The list below details the stakeholders that sent written responses and/or attended the workshop.

Organization	Attended Workshop	Sent Written Response
Portland General Electric	X	X
PacifiCorp	X	X
Renewable Energy Coalition	X	X
Northwest SEED	X	X
Confederated Tribes of the Umatilla Indian Reservation	X	X
Oregon Solar Electric Industry Association	X	X
Energy Trust of Oregon	X	X
Oregon Energy Green		X

All stakeholders supported continuing the practice of blending voluntary and ratepayer funds. Most stakeholders noted that but for the blending of funds many renewable projects owned by Non-Profits – namely Oregon Native American Tribes, a 501(c)3, or civic entities – would not have been completed.

Staff received an additional letter after the workshop. This letter was from OneEnergy and was received in February 2017. The letter was received after Staff recommended to PGE that OneEnergy's solar project not receive a voluntary grant from PGE's Renewable Development Fund. The logic for this recommendation is laid out below.

Finally, since the circulation of the original memo both PGE and PAC have had a chance to share their opinions on Staff's recommendation. In general, both utilities object to limiting the awarding of voluntary grant funds solely to Non-Profits.

Appropriateness of Blending Voluntary and PPC Funds on Renewable Projects

As stated previously, it is Staff's opinion that determining the appropriateness of blending funds hinges upon the purpose of the funds in question. Staff's investigation

[11] *See* UM 1020, Letter to Stakeholders, dated May 25, 2016.

found that that despite the fact the utilities' voluntary programs and Energy Trust's ratepayer funded program serve different purposes and needs. These programs can act in a complementary manner with minimal attribution issues but only when the project owner is a Non-Profit.

When the voluntary programs award grant funding to Non-Profits, the voluntary funds act as a replacement to federal tax credits that the Non-Profits usually cannot access. This is especially important as Energy Trust's ratepayer funded renewable program is structured around the assumption that standard solar projects and other renewable projects can utilize tax credits.

Staff found that when funds are blended and the project owner is a Non-Profit – specifically, an Oregon Native American Tribe, a 501(c)3, municipality, university, school, or hospital – that cannot utilize Federal or State tax credits the practice can have a positive impact on the development of new, additional renewable energy projects that also reduce onsite load and overall RPS requirements. This meets the purpose of both the voluntary program and the ratepayer funded program. So while Staff agrees with the comments from Stakeholders that the practice of commingling should continue, Staff could only determine that it was appropriate to continue the practice of commingling when the project owner was a Non-Profit.

Recommendation for Directing Voluntary Funds Grant Funds to Non-Profits Exclusively
Staff research and stakeholder testimony broadened Staff's awareness to the additional financing hurdles faced by Oregon Indian Tribes, 501(c)3's, municipalities, universities, schools, and hospitals in developing renewable projects. While developing any renewable project can be difficult, Staff found that this is especially true for Non-Profits. The graph below highlights the point. In 2016, tax credits accounting for over 25 percent of the financing for a standard solar project in Oregon.

As Federal and state tax credits are generally not available to Non-Profits, this raises the total participant cost for these entities. Staff finds that the rest of the market generally has access to some form of Federal and/or state tax credits.

Because voluntary programs are meant to give participants the ability to fund "green" activities that are *additional* to the RPS, grant awards to Non-Profits best fit the purpose of the voluntary programs.[12] Awarding voluntary grant funds to Non-Profits also minimizes attribution issues related to the blending of funds.

Staff notes that the voluntary program administrators and Energy Trust are aware of these facts. The utilities have developed grant selection criteria that favors the selection of Non-Profits for grant awards and should be commended for their approach. Staff simply recommends that the rules governing voluntary grant funds be updated so that only Non-Profits can receive grants. Again, both utilities are opposed to this limitation.

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[12] *See* footnote #7.

They are not opposed because it goes against their current practices. In fact nearly all awards have gone to Non-Profits. The utilities would simply like to continue to exercise their own judgement regarding project merit, as they have done so in the past. Staff does not find this position unreasonable.

Staff would be willing to entertain and approve occasional exemptions when the utility can clearly demonstrate to Staff that a project owned by an entity other than a Non-Profit demonstrates a compelling, broader public interest and clearly establishes attribution to the voluntary funds. Staff would ask the utilities develop a criteria for awarding grant funds to entities other than Non-Profits for the Commission's review and approval. Any criteria should establish attribution, demonstrate how the project serves the broader public interest despite being owned by an entity other than a Non-Profit, and balances funds awarded with those funds awarded to Non-Profits.

Recommendations for Blending Voluntary and PPC Funds on Renewable Projects
Staff did find that even if voluntary grants are only awarded to Non-Profits, certain operational parameters would still need to be adopted to govern the blending of funds to ensure that benefits are being maximized for all ratepayers.

These operational parameters are organized into three categories: community benefit; integrity of program purpose; and efficient use of program funds.

- <u>Community benefit</u>
    - The project owner is a Non-Profit – specifically an Oregon Indian Tribe, a 501(c)3, municipality, university, school, or hospital – that cannot or will not utilize Federal or State tax credits.
- <u>Integrity of program purpose</u>
    - Available RECs must be clearly split proportionally between voluntary programs and Energy Trust. The split is based on the percentage of funds contributed by the two programs. The share for Energy Trust should be no less than the Energy Trust's percentage of funds contributed to the total project cost.
    - Projects utilizing blended funds can use the renewable QF rate. The voluntary program and Energy Trust would proportionally split RECs available during the "sufficiency" period of the renewable QF rate.
    - REC's claimed by the utilities' voluntary programs can only be held or retired. They cannot be used for RPS compliance or for any other compliance needs.
- <u>Efficient use of program funds</u>
    - Program administrators must engage in regular and timely coordination on project costs to avoid projects receiving more than 100 percent of total

project costs. Voluntary programs may cover costs related to education that Energy Trust's calculation does not include but must clearly describe this use of voluntary funds to their participants and in reporting to the Commission.

- Project owners or voluntary program administrators must demonstrate that total project costs are within a reasonable range of costs for similar projects.
- The project meets all Energy Trust guidelines for installation and passes inspection.
- The voluntary program administrators will submit as part of their regular reporting to the Commission details on blended projects demonstrating compliance with the operating parameters described here. The POC will submit this report as part of its annual update to the Commission in July.
- Programs are to work towards joint use of single project studies and other efficiencies where there is currently duplication of expense.

Other Utility Activities that Involve Voluntary Programs
Staff believes the operational parameters above should be applied consistently across all interactions of voluntary and ratepayer funds. With this in mind, there are two other particular instances of voluntary and ratepayer funds interacting. They are:

1) Utility ownership and voluntary funds.
2) Voluntary funds supporting renewable projects that are QFs and that received avoided cost rates.

The matter of voluntary funds supporting utility-owned renewable projects was resolved in Order No. 16-123 and Staff will not cover it here.

With regard to QF's receiving avoided cost rates, Staff still finds the issue of determining project additionality difficult if the project owner is not a Non-Profit. Staff believes the operational parameters should be applied in all circumstances, even when the potential recipient is a QF, whenever a project seeks to utilize voluntary funds. This is why Staff recommended that OneEnergy's project not receive voluntary fund support from PGE's program. OneEnergy is not a Non-Profit.

Revisiting Projects That Were Not Allowed to Blend Funds in 2016 and 2017
During the period of Staff's appropriateness review both PGE and PAC awarded grant funds to renewable projects. Only one of the over 35 renewable projects that received voluntary funds was allowed to blend funds.[13] During this time period these projects chose to receive only voluntary funds ***or*** only Energy Trust funds depending on their project's financial circumstances. These projects chose one of these funding paths

[13] *See* Order No. 16-156, Appendix C for a list of "grandfathered" projects.

because they could move forward without one of the sources of funding. Staff recommends that any Non-Profit receiving either voluntary funds or Energy Trust during the time period of the appropriateness review not be allowed to blend funding. In short, receiving ratepayer funds ***after*** being awarded voluntary grant funds or vice versa undercuts the principle of additionality.

Conclusion

Staff finds that it is in the best interest of voluntary programs to award grant funds to Non-Profits – specifically an Oregon Native American Tribe, a 501(c)3, municipality, university, school, or hospital. Staff appreciates the concerns raised by the utilities regarding limiting awards to Non-Profits and will work with utilities to develop a criteria for the occasional exemption. Staff also finds that both voluntary and ratepayer funded programs need to adopt Staff's operational parameters to govern instances when an eligible renewable project seeks to blend funds. The adoption of these operational parameters will maximize benefits to ratepayers and those ratepayers choosing to participate in the voluntary programs. Projects that received either grant funding or Energy Trust funding during the appropriateness review are not eligible to blend funds in the future. Finally, Staff believes that voluntary funds can be awarded to renewable projects seeking to use QF rates – with or without commingling – as long as the entity owning the project is a Non-Profit, and there is no utility ownership.

PROPOSED COMMISSION MOTION:

Limit the awarding of grant funds from the utilities' voluntary programs to only Non-Profit organizations, with rare exemptions approved by Staff and based on a criteria developed by the utilities in conjunction with Staff. Staff also recommends the Commission direct the utilities and Energy Trust to adopt Staff's suggested operating parameters to guide any future commingling of funds from voluntary programs and the Energy Trust for eligible renewable projects beginning no later than November 2017. Staff also recommends the Commission specify that qualifying facilities may use voluntary funds and may commingle with ratepayer funds from Energy Trust, but only if the project is owned by a Non-Profit and the suggested operating parameters are utilized.