

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 1505**

In the Matter of  
  
PUBLIC UTILITY COMMISSION OF OREGON  
  
Solar Photovoltaic Program Draft Report  
Comments & Recommendations

Opening Comments of Renewable  
Northwest Project on Staff's Photovoltaic  
Program Draft Report

Renewable Northwest Project (“RNP”) appreciates the opportunity to comment on Staff’s Photovoltaic Program Draft Report (“Draft Report”). RNP submitted extensive, detailed comments on various aspects of the program design during AR 538 and UM 1452, and continues to believe that some of its recommendations for program design—particularly its recommended methods for generating a lower, market-based VIR, setting a more sensitive VIR adjustment mechanism, allocating capacity more quickly, and managing oversubscription—could generate a stronger program. At the same time, RNP acknowledges that the adopted program design has been operating for fewer than six months and that more time is appropriate for the Public Utility Commission (“PUC”) to gather information and evaluate the effectiveness of the adopted pilot. RNP appreciates Staff’s efforts to perform this evaluation with barely six months of preliminary program data and commends Staff and the utilities for successful implementation of the program on a very rapid timeline.

RNP’s comments on the Draft Report are structured to address the categories set forth for the report mandated by ORS 757.360 (and the note following): (1) program effectiveness as compared with other solar incentives; (2) estimated cost of the program; and (3) regulatory and legislative adjustments to improve the program.

**1. Program Effectiveness**

In its first six months of operation, the solar FIT pilot program has received a remarkable response from consumers and has promoted the development of solar photovoltaic systems in Oregon. Some of that response may be due to the level at which

the initial VIR was set. But, even at a lower VIR, some characteristics of the feed-in tariff program may make it more attractive to some consumers than alternative incentives (*i.e.* the Residential Energy Tax Credit (“RETC”), the Business Energy Tax Credit (“BETC”), and grants from the Energy Trust of Oregon). The Draft Report correctly notes that the solar feed-in tariff program is more attractive to consumers who have a lower discount rate. Another advantage for some consumers is that the solar feed-in tariff program can facilitate financing of a solar PV system, which may not otherwise be available when using the higher up-front payment structure necessary under the alternative incentive regime.<sup>1</sup> The feed-in tariff model thus far has been an effective complement to the existing incentive regime for consumers. Adopting some of the recommendations in Part 3 of these comments could make the program even more effective and durable for utility customers and for development of the solar industry in Oregon.

## **2. Estimated Cost**

RNP has several suggestions for making the Draft Report’s rate impact prediction more complete and transparent. First, Staff should consider describing the rate impact on particular *customer classes*. The statute and rules give the Commission discretion to adjust capacity allocations so that the rate impact “for any customer class” does not exceed 0.25%. The utility calculations appear to suggest that impacts to individual customer classes are lower than the overall rate impact. For example, for 2012, PacifiCorp’s estimated rate impact filing shows no impacts greater than 0.25% for any single customer class, while the Draft Report’s summary for 2012 shows an overall retail rate impact for PacifiCorp of 0.471%. Second, it may be helpful to show rate impacts through 2015—the highest year in the utilities’ calculations—and then explain that rate impacts will begin to fall in 2016 and end completely in 2028. Third, the Draft Report should indicate clearly whether the rate impact estimates are based on a constant VIR, or whether they assume that the VIR will be reduced in future allocation periods. Finally, in noting that regulatory lag and deferred accounting treatment are not considered in the rate impact estimate, it would be helpful for Staff to explain generally how those issues could affect the rate impact. In sum, while RNP

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<sup>1</sup> However, it should be noted that the RETC and BETC do not provide up front cash payments as is indicated in the Draft Report. The RETC and BETC credits are allocated over several years.

understands the value of a simplified summary, in this case we believe that it is more important to fully and accurately communicate the estimated rate impacts and the assumptions on which they are based.

Rate impact predictions are important because the rate impact threshold introduces an element of uncertainty into what has been, for Oregon’s solar industry, a small but stable incentive source to plan around for the coming years. RNP understands that, with rate impact estimates at only a preliminary stage, it may not be appropriate for the PUC to predict exactly how it might adjust the program to address the rate impact threshold in the future. However, two small changes could be helpful to minimize the uncertainty in the Draft Report’s discussion of the rate impact threshold. First, using the term “cost-effective” in describing the PUC’s goals for changes to the program may be misleading, as that term has a very specific meaning in the energy efficiency context and the Legislature has specifically set the rate impact threshold as the metric for the PUC to use in evaluating the cost of the program. Second, the Draft Report should indicate that, if at some point the PUC comes to believe that program changes are necessary to address the rate impact threshold, the PUC will consider other cost-limiting program refinements before considering capacity curtailment. RNP and others advocated during the program design for a lower, market-based initial VIR, a more sensitive price adjustment mechanism, and more extensive application requirements. The PUC’s first step in any action it takes with respect to the rate impact threshold should be to reconsider these recommendations.

### **3. Program Improvements**

RNP has divided its recommendations for program improvements into three categories: (a) implementation changes by the utilities and PUC staff that do not require a rule change; (b) changes to the PUC’s implementing regulations; and (c) legislative recommendations.

#### **a. Implementation changes**

##### **i. Regular installation reports**

Regular reports of how much capacity has actually been installed under the program will enable stakeholders to evaluate whether the method for allocating capacity is

capturing the systems that are most likely to be built and whether rate impact estimates assuming full installation are likely to prove accurate.

**ii. Large system bids and winning bid prices**

The Draft Report provides the average VIR paid to large systems, but does not release the actual winning bid VIR. Analysis of the winning bid VIRs over time can be an objective and powerful metric for evaluating the state of the Oregon solar industry, and we encourage the PUC to release this information.

**iii. Diversity of allocation**

The extreme popularity of the program has led to full subscription of the first-come, first-served small and medium size category in a matter of minutes. This has led applicants to use advanced methods for quickly completing the online application, which may result in a less than optimally representative sample of potential systems. The utilities and/or the PUC should consider whether skewed distribution has occurred and, if so, whether changes to the online application system could help ensure a more representative distribution.

**iv. Demand assessment**

With virtually immediate subscription, it is difficult to estimate the extent to which demand has exceeded supply, which is important for developing policy going forward. RNP encourages the utilities to work with their software providers to try to estimate how many unique site visits the application system received, compared with the number of successful applicants. If this is not possible, then we encourage the PUC and the utilities to consider alternative ways to capture this information – such as establishing a queuing system, at least for the first day of capacity enrollment.

**b. Rule changes**

**i. Faster capacity deployment**

RNP originally advocated for a two-year deployment of program capacity, and continues to believe that a faster deployment timeline would better support the development of the solar industry in Oregon. Compressing the program timeline would not necessarily result in higher rate impacts, because more frequent capacity allocations could more rapidly lower the VIR. Also, faster deployment could drive installation costs down more quickly and promote efficiency within the solar industry. The PUC's report to the

Legislature should evaluate whether this program change would better support the development of the solar industry in Oregon.

**ii. FERC ruling/Net-metering structure**

As the Draft Report indicates, a recent FERC decision presents an opportunity to structure feed-in tariffs without relying on the net-metering model. RNP supports the Draft Report's conclusion that it is not necessary to change the net-metering structure of the small and medium size categories of the Oregon program mid-stream. But, to assist the Legislature in evaluating the opportunities that the recent FERC ruling presents, the Draft Report should explain that the net-metering structure was selected primarily to avoid FERC jurisdictional issues and include a discussion of the disadvantages of the net-metering structure to balance the advantages that the report describes.

The Draft Report suggests that the net-metering structure is a better method than the strictly performance-based incentive that the new FERC ruling would allow. In fact, the net-metering structure has significant disadvantages. Chiefly, by tying VIR payments to electricity consumption, the net-metering model creates a perverse incentive that theoretically could encourage customers to consume more energy in order to maximize VIR payments. In comparison, a pure performance-based structure can encourage customers to minimize electricity consumption in order to maximize VIR payments. The Draft Report also considers restricted system size to be an advantage of the net-metering structure, because more people can participate; however, if broad participation were an important policy goal, a performance-based system could easily be structured to limit system size according to annual demand at the system site.

**iii. FERC ruling/Large system bid structure**

One significant potential disadvantage of the bid structure that the PUC adopted is the requirement that bidders obtain market-based rate authority from FERC. In surveying participants and monitoring installation rates, the PUC should evaluate whether obtaining FERC authority has been a significant roadblock for successful bidders. If so, then the PUC should consider revising the program for large systems to use a PURPA QF rate model.

**c. Legislative changes**

The statute currently calls for reports on the feed-in tariff program every other year, to coincide with bi-annual legislative sessions. Now that annual sessions have been approved, the Legislature may wish to ask the PUC to provide annual updates on the program.

DATED this 23<sup>rd</sup> day of November, 2010.

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