ORDER NO. 11 280

ENTERED JUL 29 2011

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1452

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation into Pilot Programs to demonstrate the use and effectiveness of Volumetric Incentive Rates for Solar Photovoltaic Energy Systems.	ORDER

DISPOSITION: VOLUMETRIC INCENTIVE RATES SET

We adopted a bifurcated schedule for this proceeding. This order concludes the first phase, in which we address the appropriate volumetric incentive rates (VIRs) to be used for the October 2011 enrollment window. For the reasons that follow, we adopt a 20 percent reduction in VIRs from those used in during the April 2011 window.

I. BACKGROUND

ORS 757.365 mandates the development of pilot programs to demonstrate the use and effectiveness of VIRs and payments for electricity delivered from solar photovoltaic (SPV) systems installed by retail electric consumers. In establishing these pilot programs, this Commission adopted a mechanism to adjust the VIRs to respond to participation levels.

Under the automatic rate adjustment mechanism (ARAM), rates are reviewed every six months and subject to change based on participating levels in the program. If all of the available capacity from the prior enrollment window is fully subscribed within the first three months of the enrollment window, then a rebuttable presumption exists that the VIRs should be reduced by 10 percent for the next enrollment window. *See* Order No. 10-198 at 16.

Since establishing the initial VIRs, we have twice reduced them in response to overwhelming demand for capacity. After the utilities reached full subscription of available capacity within minutes of the first enrollment window, we reduced the VIRs by 10 percent under the ARAM for the second window. When full subscription was again reached in a matter of minutes during the second window, we concluded a larger reduction than the 10 percent presumptive reduction was required. In Order No. 11-090, we identified three reasons to support our decision:

> First, the overwhelming demand for capacity in each of the two earlier open seasons provides compelling evidence that the VIR has been set too high and is not close to the level that would lead to a relatively steady uptake of available capacity over the six-month enrollment period. Second, bids by large (100-500 kW) projects in the pilot program have averaged 35-39 cents/kWh, which is about 40 percent less than the current VIR for small projects. We expect the large projects to have somewhat lower costs than smaller ones because of economies of scale but not to such a significant extent. Third, there has been a significant increase in development of solar PV projects in the utilities' net metering programs, where projects owners can take advantage of state tax credits and incentive payments by the Energy Trust of Oregon. These incentives appear to provide the same return on investment as a VIR of about 32 cents/kWh, a reduction from current VIR levels of just over 40 percent. * * * Taking all these factors into account, along with our concern about the impact on ratepayers of this program, we conclude that a reduction in the VIRs of 20 percent is appropriate for the enrollment beginning April 1.

II. PARTY COMMENTS

Under the schedule adopted for this first phase of this proceeding, parties filed two rounds of comments on the appropriate VIRs to be used for the October 2011 enrollment window. Because available capacity was again fully subscribed in a matter a minutes during the April 2011 enrollment window, the ARAM prescribes a further 10 percent reduction of the VIRs for the October 2011 window.

Staff, the Renewable Northwest Project (RNP), and Idaho Power all support the presumed 10 percent reduction in the VIRs. Staff believes a further 10 percent reduction is appropriate due to the continued overwhelming demand for capacity and the need to mitigate overall impact on customer rates. Staff adds that a rate adjustment reduction under the ARAM provides some predictability for those interested in participating in the programs. RNP states that the 10 percent ARAM reduction will set the VIR within an appropriate range that is sufficient to incentivize solar PV development, noting the continuing decrease in costs to install solar PV systems. Idaho Power supports a 10 percent ARAM reduction given the continued enthusiasm, but believes that the VIRs are still above the level necessary to attract participation in the program and would be agreeable to a larger reduction.[1]

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[1] Idaho Power notes that this Commission previously postponed the company's March 2011 enrollment window, so that the upcoming October 2011 window will be its second overall. For this reason, Idaho

Oregonians for Renewable Energy Policy (OREP) only partially supports a 10 percent reduction under the ARAM. OREP contends that the speed of capacity subscription is not the key factor upon which to base VIR adjustments. Rather, REP contends the percentage of reserved capacity that is actually installed within a 12-month following enrollment is a much more accurate metric, and suggests that installations will slow as the VIR is decreased. OREP also believes that the current VIRs may already be at a level that is below the cost of generation. For these reasons, OREP recommends that Commission should only apply the ARAP to reduce VIRs in rate classes 3 and 4—areas of the state with a greater potential for solar generation. OREP recommends no rate changes for rate classes 1 and 2.

Portland General Electric Company (PGE) and PacifiCorp, dba Pacific Power (Pacific Power), recommend another 20 percent VIR reduction for the October 2011 enrollment window. These utilities state that the reasons cited by the Commission in Order No. 11-090 to previously reduce VIRs by 20 percent apply equally today—capacity during the April 2011 window was filled almost immediately, bid prices remain 30 to 40 percent lower than the VIRs, and both utilities continue to experience robust interest in their respective net metering programs.

III. DISCUSSION

Based on the program results to date and the comments filed by the parties, we conclude that the VIRs should be reduced by 20 percent for the upcoming October 2011 enrollment window.

We agree with PGE and Pacific Power that the reasons we cited to reduce the VIRs by 20 percent for the last window remain relevant today. The continued overwhelming demand for capacity during the April 2011 window provides compelling evidence that the VIR is still too high. All capacity was fully allocated in just over a half hour. Although PGE's allocation of capacity for small systems took a bit longer (34 minutes) than the previous enrollment window, it was still measured by the number of minutes—not months as contemplated in the ARAM. And while we agree that the amount of actual capacity installed within 12 months of enrollment would provide useful information to determine VIR adjustments, such information is obviously not available during the six-month review window of the ARAM.

Similarly, bid prices continue to drop, reflecting the declining costs of installing PV systems. During the April 2011 window, the average of all bids for large systems was approximately 33 cents—the average of winning bids was 28 cents. Strong interest in the net metering programs provide further support for PV development at benefit levels lower than that provided by current VIRs.

Power clarifies that it recommends a 10 percent reduction in the VIRs used for the March 2011, notwithstanding the fact that it did not allocate any capacity during that window.

We conclude that these reasons provide a sufficient basis to overcome the prescribed ARAM reduction and conclude that a 20 percent reduction in VIRs is reasonable. We continue to seek VIRs that provide sufficient incentives to fill available capacity while mitigating impacts on customer rates. We believe our decision here will help move us towards that level, and we will closely monitor the results of the October 2011 enrollment window to test the reasonableness of these resulting prices set forth below:

Rate Class	Counties	Electric Companies	Small-Scale VIR	Medium-Scale VIR
1	Benton, Clackamas, Clatsop, Columbia, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill	Pacific Power and PGE	37.4 cents	31.7 cents
2	Coos, Douglas, and Hood River	Pacific Power and PGE	34.6 cents	31.7 cents
3	Gilliam, Jackson, Josephine, Klamath, Morrow, Sherman, Umatilla, Wallowa, and Wasco	Pacific Power	34.6 cents	31.7 cents
4	Baker, Crook, Deschutes, Jefferson, Lake, Malheur, and Harney	Pacific Power and Idaho Power	31.7 cents	31.7 cents

Finally, we note that we will be addressing possible changes to the Solar Pilot programs in the second phase of this docket. One issue that has been raised is the possibility of alternating the methods used to allocate capacity for medium scale systems. One proposal is to use bidding for the October 2011 window, followed by a lottery-based allocation scheme for the April 2012 window. If we subsequently decide to adopt such a proposal, the VIRs established here for medium scale systems would not be used.

IV. ORDER

IT IS ORDERED that the volumetric incentive rates for the October 3, 2011, enrollment window are established as set forth above. Portland General Electric Company, PacifiCorp, dba Pacific Power, and Idaho Power must each make a compliance filing consistent with the terms of this order.

Made, entered, and effective JUL 29 2011.

John Savage
Commissioner

Susan K. Ackerman
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.