BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1452

In the Matter of	)	REPLY COMMENTS OF
	)	OREGONIANS FOR RENEWABLE ENERGY
PUBLIC UTILITY COMMISSION	)	POLICY REGARDING THE VIR FOR
OF OREGON	)	OCTOBER 2011 ENROLLMENT WINDOW
	)	
Investigation into Pilot Programs to	)	
Demonstrate the Use and	)	
Effectiveness of Volumetric	)	
Incentive Rates for Solar	)	
Photovoltaic Energy Systems	)	

Oregonians for Renewable Energy Policy ("OREP") offers these comments in response to comments filed by the parties on July 7, 2011.

The issue of demand as it relates to the pilot programs permeates the comments. One year into the pilot program, it is clear that there is much more interest in subscribing to a production-based incentive program than any party expected during the rule-making process. It is apparent that there is inadequate capacity to meet this demand. In OREP's view, the demand is not created solely by a particular volumetric incentive rate (VIR) but exists because of a recognized need for distributed generation of renewable energy. In a pilot program with extremely limited capacity, discussion of what rate induces adequate demand misses the point and skirts the responsibility to use the pilot opportunity to develop a VIR setting methodology appropriate for an expanded FIT program.

The underlying economic realities of a sustainable production-based incentive program should not be dismissed simply because the pilot's supply is inadequate to meet demand. No one has yet suggested (with a straight face) that investor-owned utilities should reduce their rates so that they do not cover the cost of generation and a reasonable return on

investment. Proposing pilot program VIRs that do not cover the cost of generation is inconsistent with sound business practices. As we asserted in opening comments, in adjusting rates the Commission should look to other factors rather than simply note how many minutes it took to sell a high demand, limited availability commodity. In the learning process of this pilot program, proper VIRs should consider the economic considerations of both ratepayers and generators.

We agree with Renewable Northwest Project ("RNP") that the Commission should monitor attrition rates. As pointed out by RNP, the enrollment process does not give a snapshot of demand in real time, but reflects the results of six-month's marketing efforts by installers. It should be noted that the marketing for April was based on a presumed decrease of 10% in VIR, not the 20% decrease that was announced two weeks prior to April 1, 2011. We believe that if the 20% decrease had been advertised well in advance, substantially less enthusiasm would have been reflected in the uptake. On this basis OREP recommends holding the VIR for under 10 kW steady for Zone 1 and Zone 2, and dropping the VIR in Zone 3 and Zone 4 by 10% to correct for discrepancies in financial feasibility due to the differences in insolation (see spreadsheet simulations prepared by staff and shared at VIR workshop). The necessity of this correction is anecdotally indicated by the continued rapid uptake in PacifiCorp's territory, a large proportion of which is in the sunnier zones. If the Commission is now trying to incentivize renewable energy as cheaply as possible, regardless of the cost of generation, it should try to do so in all insolation zones, rather than squeeze generators in cloudy zones and "leave money on the table" in sunnier zones.

While PGE asserts that there is no sign that reserved systems are failing to be installed in significant numbers, it has not provided supporting data. Anecdotal evidence indicates that many of the bids are already below the level of economic viability. We would point out that

monitoring the rate of installations from each enrollment window would not require a reduction to one capacity window per year, as installation data from prior enrollment windows could be compared and trends analyzed on an ongoing basis.

PGE and PacifiCorp's VIR/bid comparison argument assumes that all the bids made are reasonable and buildable. Our understanding is that the average bid values for April 2011 include winning bids at 24 cents/watt that have been unable to get financing and are generally considered unbuildable at that price. Renewable energy programs with competitive bidding are notorious for allocating capacity at low prices but ending up with a disappointing fraction of renewable energy generators actually brought on line. Bids for completed systems are the only data that provide a valid basis for comparison (though in this case there are also confounding and unknown economies of scale to contend with).

The utilities' VIR versus bid comparison does not take into account where the proposed systems are located. As noted in our earlier comments, insolation levels vary throughout the four zones, changing the financial viability of systems at a given price. A valid assessment would compare bid prices of successfully constructed systems to VIRs within the same insolation zone.

One of the first (only?) bid systems to be completed on deadline from the July 2010 enrollment window is a 500kW system in Marion County (PGE - Zone 1). It was completed by an owner-generator who, perhaps not coincidentally, also owns a solar installation company. The owner reports that it was a financially "lean and mean" installation. His winning bid was 39 cents/kWh.

PGE and PacifiCorp are now suggesting an even lower VIR for this region (37.4 cents) for systems under 10kW in size. The owner-generator/solar installer who completed the system above asserts that, for an installation under 10kW today, he would have to quote a

customer at least $6/watt. Not even a zero percent loan rate would pencil out for a 5kW system at $6/watt at the VIR proposed by the utilities.

It is unclear at this time whether capacity in the medium size category (10 to 100kW) will be allocated by standard offer or by bid in October of 2011. In the case that allocation is by standard offer, OREP again recommends varying the VIR between the zones to reflect the financial realities of differing insolation levels.

A steady orderly degression in VIRs is a desirable goal in a system of production-based incentives. OREP believes there is ample anecdotal evidence that the VIRs are already either at, or below, the cost of generation in rates classes 1 and 2. For the reasons set out above and in our opening comments, we recommend that the Commission make no change in the VIRs for rate classes 1 and 2, and reduce the VIR by 10% in rate classes 3 and 4.

DATED this 15th day of JULY 2011.

OREGONIANS FOR RENEWABLE ENERGY POLICY

/s/Mark E. Pengilly