

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1452

In the Matter of)	COMMENTS OF
)	OREGONIANS FOR RENEWABLE ENERGY
PUBLIC UTILITY COMMISSION)	POLICY REGARDING THE VIR FOR THE
OF OREGON)	APRIL 2012 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”) thanks the Commission for the opportunity to offer comments on the volumetric incentive rates (VIRs) for the April 2012 pilot program capacity allocation.

1. In setting the VIRs the commission should consider the economic viability of the PV projects based on the solar resource of the geographic area.

One of the most striking data points reported by the utilities from the October 3, 2011 capacity allocation is the different capacity reservation rates between PGE (43% of available capacity) and Pacific Power (83% of available capacity). We lack data that would show the capacity reservations of the different utilities by county or by rate class. However, anecdotal comments suggest that the most plausible reason for the different acceptance rates is the variation in insolation between relatively more sunny Pacific Power rate classes and relatively less sunny PGE rate classes. A given VIR that might be economically viable for a potential Pacific Power project in Jackson County might not be for a potential PGE project in Multnomah County, where the solar resource is 30-40% lower.

In the Portland area, which is served by both PGE and Pacific Power, it would be confusing to consumers to have different rate for the two utilities. More significantly, a lower Pacific Power VIR, adjusted based on system-wide capacity reservation rates, would prevent a Pacific Power customer in Portland from participating in the pilot program

Therefore, in setting the VIRs, we encourage the Commission to set VIRs by geographical rate class, rather than by utility.

2. The October 3, 2011 VIRs were too low to attract customers and should be increased, by rate class, to a level that will cause the available capacity to be utilized.

The response to the October 3, 2011 allocation in the small category was dramatically reduced in comparison to previous allocations. This may have been in response to the lottery system (as opposed to first-come-first reserved), the requirement of a non-refundable deposit, or the 20% decrease from the April 2011 VIR. We do not at this time advocate for a change in the lottery system or the non-refundable deposit. We do recommend that the VIRs be increased to a level that will increase the probability that the full capacity available in April 2012 will be reserved and installed.

We recommend that the VIRs for small-scale systems in rate classes 1 and 2 be increased by 15% and that the VIRs for small-scale in rate classes 3 and 4 be increased by 5%. Raising the VIRs as recommended and multiplying the applicable VIR by the insolation factor in each zone, in Table 1, would bring the effective VIRs for all rate classes within three percentage point of on another. This would still produce about a 5% degression from the April, 2011 VIRs, which is a reasonable decrease in the VIR.

Table 1.

Class	Counties	Solar Resource	OCTOBER 2011			APRIL 2012		
			VIR OCT 2011	SR x VIR	(SR X VIR) for class (SRxVIR) for class1	Increase	VIR APRIL 2012	(SR X VIR) for class (SRxVIR) for class1
1	Benton, Clackamas, Clatsop, Columbia, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill	1.1	\$0.37	\$0.41	1.00	15.00%	\$ 0.431	1.00
2	Coos, Douglas, and Hood River	1.2	\$0.35	\$0.41	1.01	15.00%	\$ 0.397	1.01
3	Gilliam, Jackson, Josephine, Klamath, Morrow, Sherman, Umatilla, Wallowa, and Wasco	1.3	\$0.35	\$0.45	1.09	5.00%	\$ 0.363	1.00
4	Baker, Crook, Deschutes, Jefferson, Lake, Malheur, and Harney	1.4	\$0.32	\$0.44	1.08	5.00%	\$ 0.333	0.98

3. Application of the automatic rate adjustment mechanism is an inadequate response to the market.

The automatic rate adjustment mechanism (ARAM) would increase small-scale rates by PGE customers by 10% and would cause no change in the VIR for Pacific Power customers. The ARAM is based on the speed with which percentages of capacity are reserved. Experience with the pilot programs shows that a relatively high percentage of reserved capacity, ranging from 20% to 64%, has not been installed. This failure rate is not part of the ARAM and we believe it is a factor that argues for a higher VIR than would result from a simple application of the ARAM. Anecdotal reports indicate that inability to obtain financing is the most salient reason for reserved capacity not to be installed. Increasing the VIR more than the ARAM would dictate may lead to a reduction in the failure rate and greater utilization of pilot program capacity.

4. Medium-Scale VIRs should be based on a VIR of 31¢ for rate class 1 and adjusted by solar resource for rate classes 2,3 and 4.

It is clear that the market is attuned to the difference in resource value in different regions of the state. Bids from Pacific Power territory in both the Large and Medium size categories have been consistently lower than bids from PGE territory. See Table 2, showing the ratio of PGE to Pacific Power bids, both “lowest” and “highest winning”, for each bid driven enrollment.

PGE is largely limited to Rate Class 1, whereas Pacific Power customers can install in the sunniest parts of the state. In a perfect free market one would expect all the winning bids from Pacific Power to come from Rate Class 4, where the solar resource is greatest. If this were the case, one would expect the ratio of PGE bids to Pacific Power bids to be about 1.3, reflecting the ratio of solar resource between region 4 and region 1. In fact this is about what the data shows, especially in the last two bidding enrollments.

Table 2 – Lower Solar Resource in PGE Territory Reflected by Higher VIR Bids

Allocation Date	Size	Bid Ratios PGE:Pacific Power		Solar Resource Ratio Zone 4: Zone 1 (1.4 : 1.1)	Installed to Date PGE	Installed to Date Pacific Power
		Low Bid	Highest Winning Bid			
July 1, 2010						
	Large	1.66	1.66	1.27	2 of 2	1 of 1
Oct. 1, 2010						
	Med					
April 1, 2011						
	Med					
	Large	1.13	1.32	1.27	1 of 3	0 of 2
	Oct. 3, 2011	Med	1.30	1.29	1.27	0 of 3

Note that the solar resource values used in table 1 and 2 are an approximation for the entire class region. The actual solar resource within the utilities territories is reported to vary from 1.03 to 1.47, or a difference of more than 40% relative to Astoria, the least sunny location.

This bid history highlights the need for different Medium Scale VIRs according to solar resource for each rate class, so that systems are equally economically viable for both PGE and Pacific Power customers. A VIR that is constant across rate classes will either be

uneconomical for PGE customers and create the problem of insufficient uptake of PGE's allotted capacity, or will be a giveaway of ratepayer funds to Pacific Power customers in rate classes 3 and 4. We recommend that the VIRs for the medium size category reflect the relative economic viability of installation in each region.

We suggest that a highest winning bid is a good starting place for consideration of what the rate should be. We also need to take into account the actual rate of successful installation so as not to overshoot the mark and set the VIR lower than is economically viable. Since only 1 of 5 winning large-scale projects from the April 2011 enrollment has been completed to date, and since we have no information yet about the medium projects bid in October, we suggest that the VIR should be no lower than the highest accepted bids for April. (We recognize that the Large Scale installation costs might be expected to lower, but there is actually no evidence for that when looking at the highest winning bid for Medium.)

We suggest that VIRs for medium should thus reasonably range from the highest winning bid in PGE Territory (0.31) in Rate Class 1 to the highest winning bid in Pacific Power Territory (0.234) for Rate Class 4. The difference of 32% between the two utilities likely reflects the differences in the solar resource in the two regions.

OREP recommends rates based on a VIR of \$0.31 for Rate Class 1 and adjusted for relative solar resource as follows:

- a. Class 1 - \$0.31
- b. Class 2 - \$0.284
- c. Class 3 - \$0.262
- d. Class 4 - \$0.243

OREP recommend the following specific VIR adjustments for small-scale:

Small-scale

Rate class 1 – increase 15%

Rate class 2 – increase 15%

Rate class 3 – increases 5%

Rate class 4 – increase 5%

Going forward OREP recommends utility reporting of capacity reservation and capacity installation by rate class. OREP recognizes there may be regional factors other than solar resource that affect project viability. It is possible that installation costs are lower outside of urban areas. This may account for some of the increased reservation rates in areas served by Pacific Power. Therefore in adjusting VIRs, we encourage the commission to consider geographic rate class rather than utility.

DATED this 17th day of JANUARY 2012.

OREGONIANS FOR RENEWABLE ENERGY POLICY

/s/ Kathleen A. Newman

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