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August 22, 2011

Via Electronic Filing and U.S. Mail

Filing Center
Oregon Public Utility Commission
PO Box 2148
Salem, OR 97308

Re: UM 1452 - INVESTIGATION INTO PILOT PROGRAMS TO
DEMONSTRATE THE USE AND EFFECTIVENESS OF VOLUMETRIC
INCENTIVE RATES

Dear Filing Center:

Please find enclosed for filing an original and four copies of the Reply Comments of Oregonians for Renewable Energy Policy Regarding SPP Rule Changes for the October 2011 Enrollment Window.

This document is being filed by electronic mail with the Filing Center and is being served by email on the UM 1452 service list.

Thank you.

Very truly yours,

Kathleen Newman

KAN:s
Enclosures (2)

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1452

In the Matter of)	
)	
PUBLIC UTILITY COMMISSION)	AUGUST 22, 2011
OF OREGON)	REPLY COMMENTS OF
)	OREGONIANS FOR
Solar Photovoltaic Program)	RENEWABLE ENERGY POLICY

Oregonians for Renewable Energy Policy (OREP) thanks the Commission and Staff for the opportunity to contribute these reply comments on the Solar Photovoltaic Pilot Programs. Our comments address the changes in rules proposed by Staff and the Joint Utilities in their opening comments of July 29th and in the rulemaking workshop of August 10. In these comments we also request the opening of an investigation into the determination of resource value

Issues addressed:

1. Lottery Implementation for October 3rd
2. Allocations of Medium Size Capacity by Lottery and RFP
3. Opening a generic investigation into the appropriate calculation of the resource value of solar photovoltaic projects

1. Lottery Implementation for October 3rd

OREP does not take issue with the Joint Utilities' proposed rule changes pertaining to the definition of "installed", the new construction and the 90% rule, the 24-hour capacity reservation lottery enrollment window, and the three-month capacity enrollment period. We agree with the Joint Utilities that a Cohort D of Participants should be surveyed in order to capture information from participants in the first lottery process, and that a bi-annual report will be sufficient reporting given the frontloading of uptake into the first part of the enrollment period.

At the August 10th workshop, the utilities detailed the various constraints pertaining to collecting and refunding deposits, holding credit card numbers for future charging, and having sufficient time to set up the program before Oct 3. It is unfortunate that the utilities are not able to set up a procedure that will both deter less-serious applicants and accurately enumerate program interest. Under the circumstances, the procedure outlined at the Aug 10 workshop is acceptable to OREP as a working compromise. However, given the inherent imperfections of the process we agree with the opinion articulated at the workshop by RS Solar, that, in evaluating interest in the program, the number of applications to the lottery should be corrected downward if there is evidence (based on non-payment of deposit) of “stuffing” the lottery with non-serious applications.

2. Allocations of Medium Size Capacity by Lottery and RFP

OREP agrees with Staff’s assessment that the most reasonable, cost-effective, and informative way to allocate 50% of medium capacity to lottery and 50% to the RFP process is to alternate between the lottery and RFP option at each 6 month enrollment window. We disagree with Staff that low bids set in the October enrollment would provide useful information for setting the VIR for the April window (see Appendix 1) and strongly concur with PGE’s preference to hold all the RFPs for large and medium simultaneously in April as a way of simplifying the process and minimizing costs.

3. Opening a generic investigation into the appropriate calculation of the resource value of solar photovoltaic projects

As a public interest group, OREP is concerned that correct accounting of costs and benefits be used in passing on costs of the Solar Pilot Program to ratepayers. (i.e. we want to see correct accounting of recovery of costs by utilities - See HB 3039 Section 2, subsection 10). OREP also wants to be sure that the cost benefits of solar installed under the SPP are included in the calculation of rate impact so that total program costs and extrapolations to costs for an expanded program are not overinflated.

We don’t currently know what the resource value for distributed solar in Oregon is, and therefore don’t know how significant the cost benefits are. There is reason to believe from studies in other places that the cost benefits can be substantial and that, at current and presumed VIRs, the resource value could in principle even rise above the level of the VIR before the end of the contract period, creating a reduced and then negative rate impact as time progresses.

A recent study (Perez et al, Solar Power Generation in the US: Too expensive, or a bargain? (<http://www.asrc.cestm.albany.edu/perez/2011/solval.pdf>) documents the following ranges of savings for locally distributed solar installations in New York State:

- Transmission (wholesale) energy 6 – 11 cents/kWh
- Transmission Capacity – avoids remand response purchases 0 – 5 cents/kWh
- Distribution Energy (loss savings) – avg 5 to 10% - 0.5 -1 cents/kWh
- Distribution Capacity – 0 - 3 cents/kWh
- Fuel price mitigation, 3 – 5 cents/kWh (for 5 year outlook only)
- Value of the RECS – 0.5 to 5 cents/kWh (Oregon)
- Total benefit to utility and ratepayers: 10 - 30 cents/kWh

For sake of example, if we assume a current resource value of 20 cents/kWh and add inflation at 7% for 15 years, we arrive as 55 cents/kWh as the resource value at end of contract period. Under this scenario the SPP would be providing a net cost savings to rate payers.

A related but separate issue is that, as far as we can tell, there is currently no requirement for the utilities to reassess resource value and update the estimates used for rate recovery between the years 2014 and 2025.

OAR 860-084-0370

- (1) On November 1 of 2010, 2012, and 2014, each electric company must file, for review in a Commission proceeding, its estimate of the fifteen year levelized resource value, along with supporting work papers.
- (2) For the purpose of determining payments to retail electrical consumers at the end of the 15-year contract term, each electric utility must file, beginning January 1, 1025, and every January 1 thereafter, its estimates of the annual resource value for the company for each of the next five years.

This eleven year gap in calculation of Resource Value is problematic, particularly as volatility in the fossil fuel market and summer air-conditioning loads are both expected to increase over time.

OREP requests that the Commission open a generic investigation into the appropriate calculation of the resource value of solar photovoltaic projects. A transparent discussion will ensure correct understanding and accounting of the factors contributing to the value of distributed generation by solar PV. Correct calculation of the resource value is essential for:

- o Correct accounting for recovery of costs by utilities
- o Accurate rate impact calculations
- o Being a useful basis for projecting resource value and hence the projected value of a system at termination of contract

This investigation will be of great value to the learnings of the Solar Pilot Program.

Appendix 1 – Failure of Competitive Bidding Projects to Deploy

Evidence continues to accumulate that capacity reservations won by competitive bidding have slow and low rates of construction, leading to the paradoxical conclusion that standard offer programs lead to faster deployment and often lower costs.

Following are some quotes from recent publications. Please see the full publications for the more complete picture.

“Under an auction-based system, an incentive is created for bidders to bid as low as possible in order to increase their chances of securing a contract. Recent experience from jurisdictions such as China and Brazil suggests that underbidding is widespread, and contract failure rates remain high, leading to slower growth.”

From: FEED-IN TARIFFS OR BIDDING: HOW BEST TO ASSIGN RENEWABLE CONTRACTS TO BY COUTURE ON BIDDING AND TENDERING; March, 2011

<http://www.wind-works.org/FeedLaws/Feed-inTariffsorBiddingHowBesttoAssignRenewableContracts%20.html>

“Significant historical rates of contract failure in both North America and Europe have been documented”

From: The World Future Council - FITness Testing: Exploring the myths and misconceptions about feed-in tariff policies

http://www.worldfuturecouncil.org/fileadmin/user_upload/PDF/FITness_Testing_Myths.pdf

“Contract failure, ... may be caused by a wide variety of reasons, including overaggressive bidding in solicitation processes.”

From: Wisner, R., O’Connell, R., Bolinger, M., Grace, R., & Pletka, R. (2006). Building a “margin of safety” into renewable energy procurements: A review of experience with contract failure (CEC-300-2006-004). Sacramento, CA: California Energy Commission.

<http://www.energy.ca.gov/2008publications/CEC-300-2008-009/CEC-300-2008-009-F.PDF>

“Bidding systems rarely result in actually building the amount of capacity called for. Typically the failure rate is 50%”.

From: Request for Proposals, Bidding, & Tendering: Successful Policy Mechanisms or Multiple Paths to Failure? By Paul Gipe, April 2011.

<http://www.wind-works.org/FeedLaws/RFPsSuccessfulPolicyMechanismsorMultiplePathstoFailure.html>

DATED this 22nd day of August, 2011.

Oregonians for Renewable Energy Policy (OREP)

/s/ Kathleen A. Newman
OREP Representative

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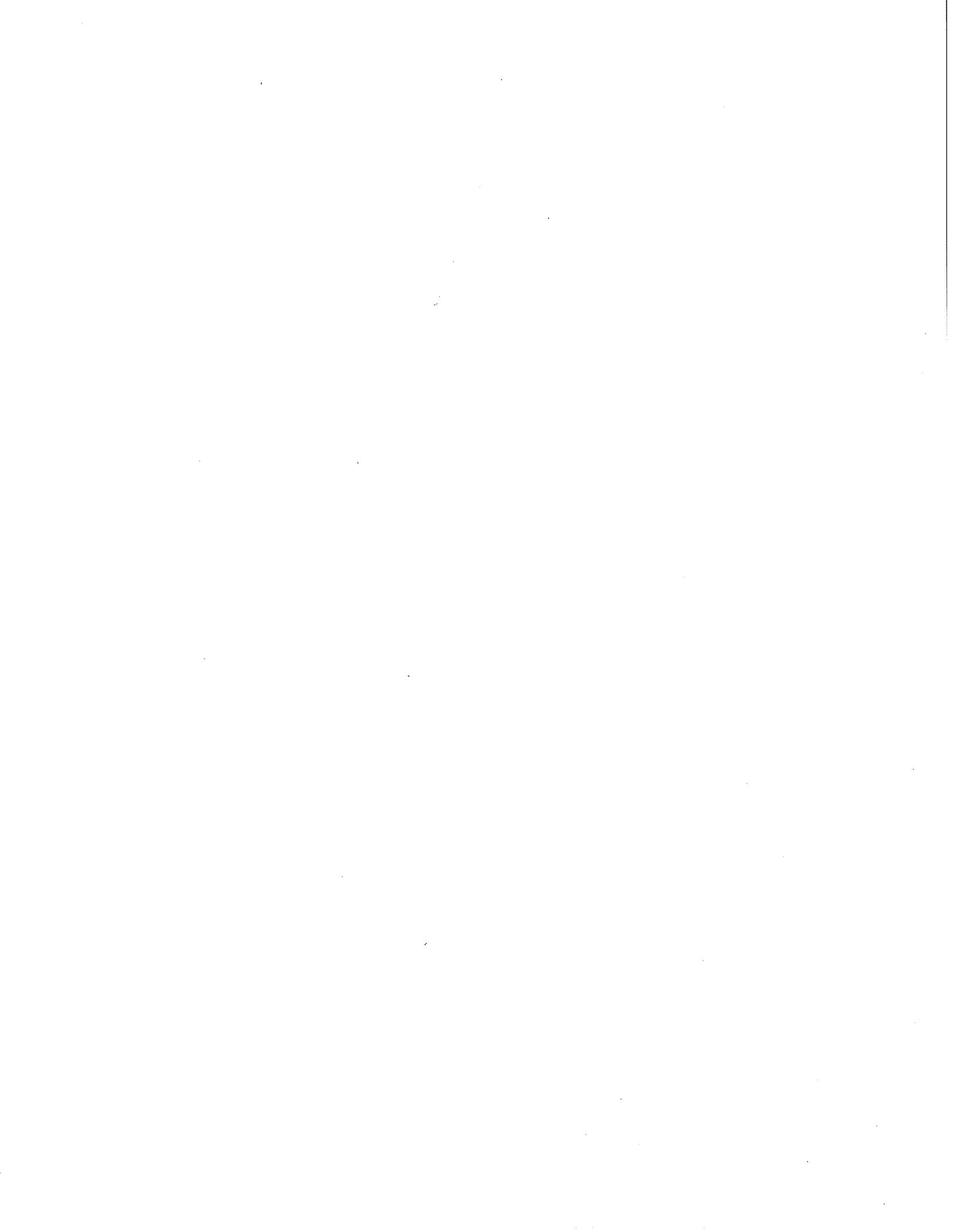
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Certificate of Service

UM 1452

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties of attorneys of parties.

Dated at Hillsboro, Oregon, this 22nd day of August, 2011.

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