

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 14, 2012**

REGULAR X CONSENT _____ EFFECTIVE DATE October 1, 2012

DATE: August 7, 2012

TO: Public Utility Commission

FROM: Robert J. Procter *MG for RP*
JF *MG*

THROUGH: Jason Eisdorfer and Maury Galbraith

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No.UM 1452)
Adjustment of the Volumetric Incentive Rates for the October 1, 2012
Enrollment Window of the Solar Pilot Program.

STAFF RECOMMENDATION:

Staff recommends the Commission allow the Volumetric Incentive Rate (VIR) for the October 2012 enrollment period to go in effect October 1, 2012, as follows:

A. Small Systems

Rate Class	Area	Utility	Current VIR per kWh ¹	Proposed VIR per kWh
1	Benton, Clackamas, Clatsop, Columbia, Lane, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill	Pacific Power (PAC) and PGE	41.1 cents	41.1 cents
2	Coos, Douglas, and Hood River Counties	PAC and PGE	34.6 cents	34.6 cents
3	Gilliam, Jackson, Josephine, Klamath, Morrow, Sherman, Umatilla, Wallowa, and Wasco	PAC	34.6 cents	34.6 cents
4	Baker, Crook, Deschutes, Jefferson, Lake, Malheur, and Harney	PAC and Idaho Power (IPC)	31.7 cents	31.7 cents

¹ See Order 11-280.

Reservation results for the April 2012 enrollment window indicate that both PGE and PacifiCorp had adjusted enrollment amounts in excess of 100 percent of available capacity. Based on application of the Commission's Automatic Rate Adjustment Mechanism (ARAM), Staff recommends that the VIR for small-scale systems remain unchanged for the October 2012 reservation window.

B. Medium Systems

Rate Class	Current VIR (cents/kWh)	Proposed VIR (Cents/kWh)
1	28.5	None
2	25.0	None
3	25.0	None
4	25.0	None

The October 2012 enrollment window will use competitive bidding for the medium scale systems. Therefore, no VIR is proposed for these systems for the October 2012 enrollment window.

DISCUSSION:

On July 18, 2012, Staff convened a workshop to discuss the VIR's for small-scale systems for the October 2012 enrollment period. Representatives from Portland General Electric (PGE) and Pacific Power (collectively "Joint Utilities"), Idaho Power Company (IPC), Oregonians for Renewable Energy Policy (OREP), Oregon Solar Energy Industries Association (OSEIA), Renewable Northwest Project (RNP), the Citizens' Utility Board (CUB), REC Solar, Energy Trust of Oregon (ETO), Oregon Department of Energy (ODOE), Oregonians for Interfaith Power and Light (OIPL), Life Solar, and others participated in the workshop. The Joint Utilities presented the results of the April 2012 enrollment period. Participants discussed the results and their implication in setting the VIR's for the October 2012 enrollment period.

1. Results from April 2012 Enrollment Window

The utilities reported the following results for the April 2012 window, as of July 16, 2012.

	PGE	PAC
Small kW Available Capacity	2155	975
Small kW Adjusted Capacity Reserved ²	2289	1087
Adjusted Capacity Reservation Ratio (%)	106	111
Medium kW Available Capacity	766	627
Medium kW Adjusted Capacity Reserved	2125	2100
Adjusted Capacity Reservation Ratio (%)	277	299

At that workshop, OREP/OIPL and OSEIA indicated that they would file comments rebutting the results of the ARAM for small systems for the upcoming October 2012 enrollment window. Parties agreed to file comments no later than July 27 in order to have this issue on the August 14 public meeting agenda. The Joint Utilities, OREP/OIPL, and ODOE filed comments.

2. *VIR for Small Scale Systems*

OREP/OIPL filed comments recommending that the proposed rates, based on the ARAM, be adopted except in the case of Rate Class 2. They propose that the price for Rate Class 2 be increased from the ARAM result of 34.6 cents/kWh to 37.3 cents/kWh. They recommend that “in setting the VIRs for the October 1 enrollment of small scale systems the Commission should continue to consider the equitable economic viability of solar PV projects and complete normalization of VIRs to insolation levels for all four solar zones by increasing the VIR in Zone 2 by 8%.”

OREP/OIPL argues, “...the payback on a solar PV system under a production-based program is proportional to both the price per kWh paid for the electricity generated and the amount of electricity generated.” As a result, in their opinion “[t]he initial VIRs set by the commission for small scale systems did not accurately normalize for the different average insolation values in the four regions.” They also argue this was the case because the economic viability of installations was about 10 percent lower in Zones 1 and 2 than in Zones 3 and 4. When in April 2012 “the commission applied the Automatic Rate Adjustment Mechanism (ARAM) to Zone 1 only, raising the VIR in Zone 1 by 10%, this brought the economic viability of systems in Zone 1 closely in line with that in Zones 3 and 4.” This is why their recommendation focuses solely on raising the price for Rate Class 2.

Based on a spreadsheet they submitted separately from their comments, OREP/OIPL arrives at the recommended price increase for Rate Class 2 by comparing the economic viability in Rate Class 2 to that in Rate Class 1. That spreadsheet uses a slightly different formulation to assess relative economics than

² Adjusted capacity reservation means the amount of capacity initially reserved minus the amount of capacity for which no deposit was received.

what they described in comments (and quoted in the above paragraph). That spreadsheet calculates the relative economics in a given Rate Class using the following formula:

$$\text{VIR for Rate Class 2} = \frac{(\text{Installed kW of Rate Class 1}) * (\text{VIR for Rate Class 1})}{(\text{Installed kW of Rate Class 2})}$$

Application of this formula for Rate Class 2 results in the proposed price of 37.3 cents per kWh. The column of results for this formula is titled "Relative Economic Viability." OREP/OIPL also argue that uncertainty about what factors affect system installation (e.g., population of the zone, number and sales ability of installers, economic capacity of potential customer generators, etc.), and how to account for them in setting prices, gives added support to increasing the price for Rate Class 2.

In contrast, the Joint Utilities support adopting the prices obtained from the ARAM methodology without any further modification. The Joint Utilities also argue that if the commission considers modifying the prices from those produced using ARAM, they support reverting to the pattern of price distribution that existed prior to the program changes just prior to the October 2011 enrollment window. In their view, that would lower the price for Rate Class 1 rather than raising the price of Rate Class 2 as has been proposed by OREP/OIPL. They argue that reducing the price for Rate Class 1 will re-establish "...the original spread adopted in the program."

ODOE also supports adopting the prices produced applying the ARAM methodology. They view that pattern of prices providing a level playing field for identically sized systems across the various Rate Classes. They are concerned that in the absence of the current price distribution across Rate Classes, one or more Rate Class "...may be disproportionately incited, resulting in skewed installations in certain zones only."

Staff has three concerns with the comments made by OREP/OIPL.

First, Staff understands that OREP/OIPL believes there should be a greater degree of "...equitable economic viability..." between Rate Class 2 and Rate Classes 3 and 4. However, Staff does not believe price equity is a compelling standard. Rather, cost-effectiveness is the overriding standard.

Second, their comments may be read to suggest that the April 2012 price increase for Rate Class 1 was set to account for the lower insolation value for Rate Class 1 compared to Rate Classes 3 and 4. That price was set using the ARAM formula. As a result, there was no effort made to adjust the price for Rate Class 1 to normalize prices reflecting variations in insolation levels between Rate Class 1 and Rate Classes 3 and 4.

Third, OREP/OIPL states that "...the payback on a solar PV system under a production-based program is proportional to both the price per kWh paid for the electricity generated and the amount of electricity generated." If other factors that affect payback are held constant while the price per kWh generated and amount of kWh generated are allowed to vary, then this statement is true. But OREP/OIPL argue for a higher price for Rate Class 2 given a difference in insolation levels while implicitly holding other variables constant that affect payback. However, no information has been presented that provides staff guidance on how this additional program cost will be beneficial to other ratepayers. It's unclear why ratepayers should pay more money in the hope that this will lead to greater adoption in Rate Class 2, especially for a program that is already a success.

Turning to the comments filed by the Joint Utilities, no information was presented addressing how much lower the rate for Rate Class 1 needs to be to achieve what they would consider parity across Rate Classes. They argue for a return to the price distribution that existed prior to the ARAM established in September 2011. Staff understands that the Joint Utilities prefer that the ARAM derived prices be implemented for the upcoming October 2012 enrollment window without further adjustment.

Staff also has several comments about the program that support adopting the proposed prices from ARAM.

Referring to the table of results for the April 2012 enrollment window, both PGE and PAC have adjusted enrollment amounts in excess of 100 percent of available capacity. Staff interprets these results to show that the program as structured is successful. Staff is not concerned that some parties who had initially reserved capacity were unable to make their deposit and therefore fell out of the April 2012 window. Had the adjusted capacity reservation ratio fallen below 100 percent, Staff might have reached a different conclusion. Considering that the adjusted capacity reservation percentages for small systems for both PGE and PAC exceed 100 percent for the April 2012 enrollment window, Staff views these results as reflecting a market that understands the pilot program is robust and is working well.

Further, based on the most recently completed 12-month period (April 2011 - April 2012), the installation amount rose to about 70 percent from about 58 percent for the period October 2010 - October 2011. In Staff's view this is further evidence that the program is operating effectively. Of course, Staff understands that Oregon's overall economic situation has also improved somewhat, which likely contributes to program success.

In light of (a) the program results for the April 2012 window, (b) the improvement in overall adoption within a 12-month period, and (c) the concerns raised by Staff

regarding the formulation put forward by OREP/OIPL, Staff recommends that the Commission adopt the prices for each Rate Class obtained directly from the ARAM methodology.

The last enrollment window for Idaho Power Company was October 2011. Idaho Power has indicated that it will have a complete accounting of uninstalled capacity by the end of this year. Idaho Power intends to reissue the uninstalled capacity for new reservations during the April 2013 reservation window. Idaho Power will not participate in the October 2012 enrollment period.

3. *VIR for Medium Scale Systems*

OREP/OIPL argues, "...it is appropriate to point out that a single VIR has historically been applied across-the-board to all zones for medium scale projects." They then argue that the same price for all four Rate Classes discriminates against customer-generators in the zones with less insolation. They believe that "...the current procedure is systematically discriminating against participation by community groups in the zones with lower insolation values, largely in the northwestern part of the state." In their opinion, "...it is only right that schools, libraries, houses of worship, co-ops, and other community facilities in Zones 1 and 2 have a fair chance to install solar on their facilities."

Since prices for the October 2012 enrollment window for medium size systems will be determined using competitive bidding, Staff recommends that the commission take no action on the issues of parity raised by OREP/OIPL. The results of the October 2012 bidding may inform parties' positions on whether the ARAM results should be used to set the VIR for medium-scale systems for the April 2013 window. Parties will have an opportunity to provide comments at that time.

4. *Summary of Recommendations*

OREP/OIPL makes two recommendations:

- a. PGE and PAC provide data on allocation by zone for all past enrollment windows.
- b. Starting in April 2013, differentiate the VIRs for medium-scale systems by insolation zone.

The Joint Utilities make the following recommendation:

- a. Implement the prices as proposed.
- b. If the Commission modifies the proposed prices, it should consider lowering the price for Rate Class 1 rather than raising the price for Rate Class 2. Lowering the price for Rate Class 1 will return the prices to the pattern that existed prior to the 2011 program modification.

Staff recommends:

- a. For the October 2012 enrollment window for small-scale systems, establish prices for each Rate Class based on the ARAM.
- b. PAC and PGE separately provide the following data by Rate Class by prior enrollment/competitive bid window to all parties no later than October 1, 2012:
 - i. Number of bids received and Total kW bid
 - ii. Number of dropouts and Total kW dropout
 - iii. Average price paid per kW

PROPOSED COMMISSION MOTION:

For the October 2012 enrollment window for small-scale systems, the prices for each Rate Class shall be set based on the ARAM results. PGE and PacifiCorp shall provide the data requested by Staff to all parties no later than October 1, 2012.