ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 6, 2013

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **October 1, 2013**

DATE: July 26, 2013

TO: Public Utility Commission

FROM: Ryan Bracken RB

THROUGH: Jason Eisdorfer, Maury Galbraith, and Aster Adams

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UM 1452) Adjustment of the Volumetric Incentive Rates for the October 1, 2013 Enrollment Window of the Solar Pilot Program.

STAFF RECOMMENDATION:

Staff recommends the Commission follow the Automatic Rate Adjustment Mechanism (ARAM) [1] and allow the Volumetric Incentive Rates (VIR) to go in effect October 1, 2013 as follows:

Table 1: Small Size Systems (0-10 kW)

Zone	Area	Utility	April 2013 VIR per kWh[2]	**Proposed VIR per kWh**
1	Benton, Clackamas, Clatsop, Columbia, Lane, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill	PAC and PGE	39.0 cents	**39.0 cents**
2	Coos, Douglass, and Hood River Counties	PAC and PGE	31.1 cents	**28.0 cents**
3	Gilliam, Jackson, Josephine, Klamath, Morrow, Sherman, Umatilla, Wallowa, and Wasco	PAC	31.1 cents	**28.0 cents**
4	Baker, Crook, Deschutes, Jefferson, Lake, Malheur, and Harney	PAC and IPC[3]	28.5 cents	**25.6 cents**

[1] Established in Order No.11-339.
[2] See Order No.13-025.
[3] Idaho Power Company (IPC) has already allocated all of their capacity under the program.

DISCUSSION:

On July 19, 2013, Staff held a workshop to discuss the VIR for small size systems for the upcoming October 2013 enrollment window. Representatives from Portland General Electric (PGE), Pacific Power (PAC), Idaho Power Company (IPC), Oregonians for Renewable Energy Policy (OREP), Oregon Solar Energy Industries Association (OSEIA), REC Solar, Energy Trust of Oregon (ETO), the Oregon Department of Energy (ODOE), Citizens' Utility Board of Oregon (CUB), and others participated in the workshop. At this workshop the Joint Utilities presented the results from the April 2013 enrollment period. Participants subsequently discussed the results and their implications for the October 2013 window and were given the opportunity to file comments.

Current Window Results:

The current window results that were reported by the utilities at the workshop informed Staff's recommendation and party comments and are found in the table below.

		Available Capacity (kW)	Capacity Reservation Requests (kW)[4]	Ratio(Requests/ Available)
Small	PGE	1547	1768	114%
	PAC	1029	2425	236%
Medium	PGE	714	1011	142%
	PAC	434	1789	412%
Large	PGE	876	1754	N/A
	PAC	582	3221	

The results show participation in the Solar Pilot Program is still robust, particularly outside of Zone 1. This occurred with the rates for the current April 2013 window decreasing from the window in October 2012.

Small Size Systems:

Staff recommends that the Commission adjust the Volumetric Incentive Rates (VIR) for small size systems in accordance with the Automatic Rate Adjustment Mechanism (ARAM), except that Staff recommends that the Commission continue the practice of using PGE's ARAM results from the current window to determine the rates for the upcoming window for Zone 1 and use PAC's results to determine the rates for Zones 2,

[4] Figures do not include capacity reservations that did not pay the deposit.

3, and 4.[5] In their comments the Joint Utilities (PGE and PAC) also support the use of the ARAM, with the aforementioned modifications to create rate parity in zones 1 and 2, for the upcoming window.

For the current April 2013 enrollment window all PGE's applications came from Zone 1, and the ratio of adjusted capacity reservation requests to available capacity was 114%. Therefore, the ARAM suggests that the VIR in Zone 1 should remain at 39 cents per kWh. Capacity reservation requests in Zone's 2-4 were all from PAC customers, and were far in excess of 150% of the capacity available to PAC. As a result, the ARAM suggests that the VIR should decrease by 10% in Zones 2-4, which results in the rates shown in Table 1 above.

While the Joint Utilities come to the same conclusion in their comments, OSEIA and OREP filed joint comments expressing concern with following the results of the ARAM for Zones 2-4. They argue that the VIR should remain at current levels in all zones since (i) dropout rates "exceed acceptable levels," (ii) panel prices "have bottomed out and increased costs offset any gains from installation efficiencies," and (iii) "October 1 is the final allocation of the Solar Pilot Program, and the goal should be to minimize the comingling of carryover capacity with the subsequent 2.5 MW extension, as directed by HB 2893."

The dropout rates for small size systems may need a closer look.[6] However, Staff does not believe that it is easy to define the "acceptable levels" that OSEIA/OREP argue have been exceeded. Furthermore, as was discussed at the workshop, it is not readily apparent that the main factor impacting dropout rates is the VIR. OSEIA/OREP did not provide evidence for why "a 10% reduction in the VIR will surely further increase the dropout rate for Zones 2-4." There are likely ways to reduce dropout that do not compromise the major program goal of minimizing the rate impacts to customers by finding the lowest viable VIR.[7] It is also relevant to point out that the VIR for small-scale systems are known and made available to potential applicants well before the enrollment window begins.

---

[5] See Order No. 13-025. Zone 1 is predominantly PGE customers and Zone 2 is almost entirely PAC customers. Therefore to keep rate parity within zones, it was decided PGE's results would be used with the ARAM for Zone 1 and PAC's results for Zone 2.

[6] This issue will likely be addressed in the Staff report called for in HB 2893 that will be presented to the Legislative Assembly before July 1, 2014.

[7] Increasing the required deposit, requiring projects to proceed faster, or requiring more financing information at the time of application are options that are likely to lower dropout rates without keeping the VIR higher than the ARAM suggests.

Regarding the second argument made by OSEIA/OREP, no evidence was provided to support the claim that panel prices have risen. While it may be true that panel prices are indeed increasing, results from the current window indicate the program was more than healthy at the current rates for Zones 2-4. Additionally, Staff argues that the ARAM was implemented for reasons like these. If the lower VIR and higher panel costs work together to reduce capacity requests below available capacity in the October 2013 enrollment, the ARAM will adjust upwards for the rollover window in April 2014. If it is further determined in subsequent rounds that the ARAM is adjusting too slowly to changing conditions, the ARAM itself can be evaluated at that time.

OSEIA/OREP's third argument for maintaining the VIR in Zones 2-4 at current levels is essentially the first concern presented in a different manner. As was discussed during the workshop, the original plan of holding a carryover window in April 2014 remains unchanged, and a docket will be opened in the near future to determine how to implement the additional capacity of the Solar Pilot Program detailed in HB 2893. Staff disagrees that the goal of the Solar Pilot Program should be to "minimize the carryover capacity from the final allocation" in order to "maintain momentum." Even if the current dropout rates do not decline in the upcoming October 2013 window and all of the additional 2.5 MW of capacity added to the program is allocated to the April 2014 window, the total capacity available for that period will still be significantly smaller than the 5.2 MW of capacity that was available for the current April 2013 window. It is not clear how minimizing rollover capacity maintains solar industry momentum better than having more capacity available for future windows. Even so, as is discussed above, the link between VIR and dropout rates is unclear at best and the results from the current window suggest momentum of the program is not a problem.

Thus, Staff does not believe that the arguments jointly raised by OSEIA/OREP are persuasive enough to deviate from using the ARAM for Zones 2-4 for the upcoming enrollment window.

Medium Size Systems:
Per Order No. 11-089, half of the medium sized capacity available in the program will be allocated by competitive bid and half by a pre-determined VIR under a lottery system. Per Order No. 11-339 implementation will take place on an alternating basis between pre-set VIR and competitive bid by enrollment window. The October enrollment windows utilize the competitive bid process. Therefore, it is unnecessary to set the VIR for medium sized systems for the upcoming window.

Large Size Systems:
The final reservation window for large size systems was the April 2013 window and no large scale capacity has been allocated to the October windows during the life of the Solar Pilot Program. Consequently, no capacity will be allocated to large size systems for the October 2013 window.

PROPOSED COMMISSION MOTION:

The Commission adopts the Staff proposed Volumetric Incentive Rates contained in Table 1 for small size systems for the October 2013 enrollment window.