ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 25, 2018

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** N/A

DATE: September 18, 2018

TO: Public Utility Commission

FROM: Caroline Moore CM

THROUGH: Jason Eisdorfer and JP Batmale

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1930) Community Solar Implementation Update.
Information only.

STAFF RECOMMENDATION:

Informational filing - no recommendation.

DISCUSSION:

Issue

This report provides an update on two key Community Solar Program (CSP) implementation milestones:

1. The competitive selection of the CSP Program Administrator (PA); and
2. The establishment of the process by which utilities will recover program start-up costs.

Applicable Law

Community Solar Program Administrator
Section 22 of Senate Bill (SB) 1547, effective March 8, 2016 and codified in Oregon Revised Statute (ORS) 757.386, directs the Public Utility Commission of Oregon (Commission) to establish a community solar program (hereinafter referred to as "Community Solar Program", "Program", or "CSP").

Division 88 of Chapter 860 of the Administrative Rules specifies that the Commission will select a CSP Program Administrator (PA) through a competitive bidding process.[1] OAR 860-088-0020 outlines the PA's responsibility to support the Commission's implementation and ongoing management of the CSP, which includes:

- Developing the Program Implementation Manual (PIM) in collaboration with Commission Staff;
- Facilitating the multi-step process for the Commission to certify projects for participation in the program;
- Facilitating the calculation and exchange of large amounts of data and monies between utilities, Project Managers, and CSP participants;
- Coordinating with the Low-Income Facilitator (LIF) to meet the CSP's low-income requirements; and
- Supporting the Commission and utilities in implementing the consumer protection requirements set forth in the CSP rules.

Competitive Procurement
Oregon Administrative Rules (OAR) Chapter 125, Division 246 delegate procurement authority to the Department of Administrative Services (DAS) for procurements exceeding $150,000. ORS 279B.060 and OAR 125-247-0260 set forth the methods for competitive sealed proposals. A combination of these methods is deployed in the process to procure CSP Program Administrator services.

CSP Cost Recovery
ORS 757.386(7) specifies different treatment for the start-up and ongoing costs of the CSP.

1. Start-up costs: Utilities may recover prudently-incurred program start-up costs as well as costs of energy purchased from CSP projects (Projects) from all ratepayers.
2. Ongoing costs: Owners and subscribers (i.e., program participants) bear the cost to construct and operate Projects, plus ongoing program administration costs.

OAR 860-088-0160(1) clarifies that start-up PA and LIF costs are recoverable in rates of all ratepayers. Further, the rules specify that utilities' prudently-incurred start-up costs recoverable from ratepayers include, but are not limited to, costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric company developing a project.[2]

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[1] OAR 860-088-0020(1).
[2] OAR 860-088-0160(1)(b).

OAR 860-088-0160(2) clarifies that ongoing PA and LIF costs are collected from CSP participants.[3]

Analysis

PA Selection Background
Acting on behalf of the Commission, DAS released the Request for Proposal (RFP) for PA services on April 16, 2018.[4] The RFP closed on May 31, 2018, and DAS received five proposals. The evaluation team scored proposals based on criteria set forth in the RFP and described in the Selection Methods section of this report. On July 25, 2018, DAS released Addendum #1 to the RFP. The addendum provided the following modifications to the RFP process:[5]

- Established a competitive range in the initial scoring of proposals, whereby DAS identified a natural break between the three highest-scoring proposers and the two lowest-scoring proposers.
- Announced the three highest-scoring proposers would move forward to a round of interviews.
- Estimated issuance of the Notice of Intent to Award a Contract following the interviews, by October 12, 2018.

At the July 31, 2018 Public Meeting, DAS updated the Commission on the status of the RFP on behalf of Staff. Following the update, Staff committed to notify the Commission at a public meeting when the Notice of Intent to Award a Contract is issued. On August 24, 2018, DAS issued the Notice of Intent to Award a Contract to Energy Solutions. This report is intended to provide notice to the Commission that this important implementation milestone is complete.

PA Selection Methods
The RFP and Addendum #1 outline the methods that led to the selection of Energy Solutions. Staff worked closely with DAS to ensure that the selection process aligned with the Commission's needs in administering a successful program. Proposals were evaluated based on criteria outlined in Section 4.10.2 of the RFP, including the proposers':

- Understanding of the timelines and milestones required to implement the program thoroughly and efficiently, including the approach to start-up and ongoing tasks and understanding of anticipated implementation challenges.
- Approach to CSP cost recovery, including the ability to minimize cost shifting to non-participants and prevent participants from undue financial hardship. This

[3] The program rules do not specify recovery for utilities' ongoing costs.
[4] DASPS-2250-17 –Third Party Community Solar Administrator Request for Proposal (RFP).
[5] DASPS-2250-17 –Third Party Community Solar Administrator.

included consideration for the clarity of cost elements and designation of start-up versus ongoing costs.
- Demonstrated experience and approach to managing large, complex programs.
- Demonstrated ability to handle substantial monthly transactions between multiple entities including detailed financial settlements and secure customer data. This included consideration of the software and other tools proposed to perform the PA services.
- Approach to facilitating the CSP's low-income elements, including outreach and LIF management.
- Approach to stakeholder engagement and the resolution of policy questions with multiple stakeholders.
- Demonstrated ability to identify and manage conflict of interest.

PA Selection Next Steps
The RFP is currently in the contract negotiation phase. DAS remains the single point of contact for the RFP during contract negotiations.

Staff looks forward to engaging in the next phase of the RFP process with Energy Solutions and DAS. Because this is a new and unique scope of services, the timeline to complete contract negotiations is unknown. Informal guidance from DAS and stakeholders suggests that this process may take 60 – 90 days. While Staff is taking steps to ensure an expedient process, it continues to focus its efforts on three key intentions:
- Ensuring the complete and timely delivery of these complex services,
- Transparency of process; and
- Securing the best value for ratepayers.

When contract negotiations are complete, Staff will bring the contract to the Commission for approval. If contract negotiations are not complete within 60 days, Staff will provide a timing update to the Commission at a public meeting.

Cost Recovery Background
CSP costs can be categorized as follows:
- Start-up costs
  - PA/LIF start-up costs – recoverable from all ratepayers
  - Utility start-up costs – prudently incurred costs recoverable from all ratepayers
- Ongoing costs
  - PA/LIF ongoing costs – recoverable from program participants
  - Utility ongoing costs – recovery unspecified

- Bill credit and unsubscribed energy costs – recoverable from all ratepayers
- Project Manager costs (costs to construct and operate a utility or third-party Project) – recoverable from Project participants

Utilities, stakeholders, and Staff began outlining the process to recover CSP costs at the June 13, 2018 workshop. Participants agreed that program start-up costs should be addressed first, because these costs are the most immediate costs to be incurred. The utilities committed to developing brief proposals for start-up cost recovery that included the following:

- The mechanism by which each utility will recover PA/LIF start-up costs;
- The mechanism by which each utility will recover prudently-incurred utility start-up costs; and
- The allocation of PA/LIF start-up costs across utilities.

Idaho Power Company (IPC), Portland General Electric (PGE), and PacifiCorp (PAC) submitted CSP cost recovery proposals to Staff on August 13, 2018. Staff circulated the proposals to the UM 1930 service list on August 15, 2018. Parties submitted comments on the cost recovery proposals on September 7, 2018.[6]

Utility Proposals for Start-up Costs
PAC and PGE propose recovery of both the PA/LIF and utility start-up costs with an automatic adjustment clause. The utilities would each file a tariff to recover forecasted start-up costs (PA/LIF and utility) and would also apply to defer any variance between actual and forecasted start-up costs. Each year that start-up costs are incurred, PAC and PGE would request to update the tariff to take into account an updated forecast of start-up costs and also, to recover or refund the deferred variance between forecasted and actual costs from the preceding deferral period. PAC further noted that their start-up costs will include capital expenses and that it intends to seek recovery of these costs in the automatic adjustment clause.[7]

IPC proposes to defer all start-up costs and begin recovery in rates after the start-up period is ended.

[6] At the July 31, 2018 Public meeting, Staff committed to keep the Commission informed as to the status of administrative cost recovery issues, and communicated its plan to provide an update at a Public Meeting on August 31, 2018. Due to the timing of the proposals and Staff and Stakeholder's review, Staff submits its cost recovery update in this report.
[7] These costs will be associated with billing and IT system upgrades.

All three utilities suggest dividing the PA and LIF start-up costs based on average customer counts as listed in the 2016 Oregon Statistics Book, which provides the following allocation of start-up costs:

- PGE – 59.2%,
- PAC – 39.5%, and
- IPC – 1.3%.

While not asked to do so, all three utilities propose a mechanism to recover ongoing costs. The utilities' propose similar recovery for ongoing PA/LIF and ongoing utility costs as proposed for recovery of start-up administrative costs.

With regard to bill credits and the purchase of unsubscribed power, all three utilities propose to include these costs of in their Net Variable Power Cost (NVPC) recovery mechanisms. The three utilities propose that these amounts not be subject to the deadbands, sharings, and earnings test applied in those mechanisms and instead, propose that these amounts be subject to 100 percent recovery.

The utility proposals are provided in Attachments A - C.

Stakeholder Feedback
The Oregon Citizens' Utility Board (CUB), Oregon Solar Energy Industries Association (OSEIA) and the Coalition for Community Solar Access circulated feedback regarding the utilities' cost recovery proposals. OSEIA and the Coalition for Community Solar Access submitted jointly as "Solar Parties."

CUB supports the utilities' proposed allocation of PA/LIF start-up costs based on average customer count, and the use of an automatic adjustment mechanism to provide contemporaneous recovery of the PA/LIF start-up costs. However, CUB has concerns that contemporaneous recovery of utility start-up costs will not provide an adequate incentive for utilities to control costs or provide adequate opportunity to review the costs for prudence. CUB also notes that recovery of capital investment in deferrals is an outstanding issue. Further, CUB notes that the utilities have been making upgrades to their billing and IT systems since SB 1547 was adopted almost two and one-half years ago, and it intends to scrutinize any incremental capital investments needed for the CSP very carefully.

With respect to the utilities' proposals regarding ongoing costs, CUB notes that Staff asked the utilities for proposals regarding recovery of start-up costs only. However, CUB comments that a clear delineation between the start-up and ongoing costs is important and supports PAC's proposal to work with the PA and stakeholders to establish a stream of recovery for ongoing costs. With respect to recovery of bill credits, CUB opposes the proposal to recover 100 percent of these costs through the utilities' power cost mechanisms without being subject to the sharing to the mechanisms' deadbands, sharing, and earnings tests. CUB believes that these mechanisms provide an incentive for utilities to control costs.

The Solar Parties provide suggestions for the classification of start-up and ongoing costs, the display of costs on ratepayers' bills, and considerations for measuring rate impacts of CSP bill credits. Further, the Solar Parties note the importance of balancing transparency with expediency.

The Solar Parties note that the distinction between start-up and ongoing costs is not fully defined and make suggestions regarding the distinction between the two. First the Solar Parties suggest the utilities' administrative costs could be properly classified as start-up costs under OAR 860-088-0160, no matter when they are incurred. The Solar Parties suggest that categorizing the utilities' administrative costs incurred after the end of the start-up period would be one way in which to decrease the cost of participation in the CSP.

The Solar Parties also suggest that the Commission consider the period necessary to fill 25 percent of the initial capacity tier as the start-up phase of the CSP. The Solar Parties recommend that the calculation of any ongoing administrative costs be established on an expectation that the entire initial capacity tier of the program (at least) is certified and operating so as to not penalize the first-mover participants with higher administrative fees. And, any administrative fees imposed on program participants should never increase after pre-certification.

Finally, the Solar Parties note that if the administrative costs of the CSP are displayed on ratepayers' bills, the manner in which they are displayed is important.

With respect to recovery of bill credits, the Solar Parties recommend that when determining the rate impact of bill credits under the CSP, the impact should be measured by the difference between the RVOS and the bill credit rate rather than the entire amount of the bill credit.

Staff Feedback on Start-up Cost Recovery
Staff appreciates the utilities' willingness to submit draft proposals for recovery of the CSP start-up costs. Review of the utilities' proposals and CUB's feedback suggests that capital and non-capital costs and utility start-up costs should be considered separately. Therefore, Staff offers the following initial feedback for three types of start-up cost described in the utilities' proposals:

1. PA/LIF Start-up Costs
   Staff supports a cost-recovery mechanism that allows for contemporaneous recovery of PA/LIF start-up costs. Staff finds that the PA/LIF costs are discrete and required to facilitate a program mandated by the legislature. Further, these costs are governed by the contract between the PA and the Commission. It is not the utilities' responsibility to bear the risk of variation in PA/LIF costs. Accordingly, Staff supports PGE's and PAC's proposal to recover these costs with a forward-and-backward looking automatic adjustment clause. For the period in which start-up costs are incurred, this will allow the utilities to update the tariff annually to take into account an updated forecast of PA/LIF start-up costs and to defer and recover or refund any variance between forecasted and actual costs.

   Staff also supports IPC's proposal to defer PA/LIF start-up costs until the end of the start-up period and begin recovery of the deferred amounts when the start-up period is finished. IPC's share of the costs of the PA and LIF is relatively small and does not necessarily warrant the cost and inconvenience of changing customer rates annually to recover. Staff notes that the deferred amounts will earn interest at IPC's authorized rate of return (AROR). However, this does not outweigh the cost and inconvenience of annual rate changes for the relatively small amounts at issue.

2. Utility Start-up Costs – Non-Capital

   Staff agrees with CUB that the utilities' start-up costs require thorough scrutiny to ensure that only incremental, prudently incurred costs are recovered from ratepayers through the automatic adjustment clause. Further, Staff notes that the utility start-up costs carry substantial uncertainty as this is a complex and unique program. These costs may be challenging for PAC and PGE to accurately forecast and for stakeholders and Staff to review for prudence in advance. At the same time, Staff recognizes that these costs are required to facilitate a program mandated by the legislature and the utilities are entitled to a certain degree of certainty that they can recover their prudently incurred costs. Accordingly, Staff proposes a workshop between Staff, stakeholders, PGE, and PacifiCorp to allow the opportunity to come to agreement about the recovery of the utilities' start-up costs.

   Staff supports IPC's proposal to defer utility start-up costs until the end of the start-up period.

3. Utility Start-up Costs – Capital

   Similar to CUB, Staff is not able to support PAC's proposal to defer recovery of and on capital investment for later amortization in rates. Additional consideration is required to determine the appropriate method of recovery for capital investment associated with the CSP. This includes an understanding of the type and magnitude of capital investments that may be required, and whether PGE and IPC will propose capital utility start-up costs. Staff intends to discuss this matter at the workshop on utility start-up cost recovery.

Finally, Staff appreciates the Solar Parties' identification of important questions related to start-up and ongoing cost recovery. Staff will work with the PA and stakeholders to ensure these considerations are included throughout the implementation phase. In particular, Staff agrees that cost recovery decisions rely on a detailed understanding of how start-up and ongoing cost will be delineated.

Staff Feedback on the Allocation of Start-up Costs
Staff appreciates the utilities' efforts to reach consensus on the allocation of the costs of the PA and LIF. However, Staff is considering whether system peak is a better reflection of the utilities' share of costs. Because the system peak determines the amount of projects that can be available to ratepayers of each utilities in both the initial capacity tier and the overall capacity tier, it may be a better reflection of the administrative costs associated with each utilities' ratepayers.

Both methods produce similar allocations. But, it is important that the underlying rationale of the allocation methodology be sound. Staff will include this issue in the utility start-up cost recovery workshop.

Utility	Share based on average customer count	Share based on 2016 System Peak
PGE	59.2%	57.8%
PAC	39.5%	40.1%
IPC	1.3%	2.0%

Staff Feedback on Ongoing Costs
Staff appreciates the utilities' transparency regarding proposals for recovery of ongoing costs, including ongoing administrative costs, bill credits, and unsubscribed energy costs. However, the start-up costs are the costs at issue in the near-term. There will not be enough certainty around the designation, allocation, and amortization of ongoing

costs to provide meaningful observation until the PA contract is in place.[8] Similarly, Staff believes it is not necessary to resolve any issues related to bill credits prior to the time the PA is on board.

Next Steps
IPC has already filed an application to defer start-up costs associated with the CSP. PAC and PGE have both proposed to file applications to defer start-up costs. Staff suggests that PGE and PAC file applications as soon as possible.

In addition, the utilities, stakeholders, and Staff should continue to work together to resolve start-up cost recovery issues by the end of November. Workshop topics may include:

- What type and magnitude of capital and non-capital utility start-up costs are anticipated;
- What is the appropriate method of recovery for capital and non-capital utility start-up costs;
- How should PA/LIF start-up costs be allocated across the utilities; and
- What should the PA consider when finalizing its detailed proposal to delineate start-up and ongoing costs in detail?

After the PA/LIF costs are known and parties conclude efforts to resolve the outstanding issues listed above, PGE and PAC should prepare to file an Advice Filing. If consensus is not reached prior to the time the utilities file the tariffs, stakeholders and Staff can address any concerns in the process for those filings.

After the PA is onboard and there is more information regarding the nature of the ongoing costs, Staff will work with the utilities, the PA, and stakeholders to address utility proposals to recover ongoing costs.

Staff proposes to provide an update on these efforts to the Commission by the end of November.

<u>Conclusion</u>

PA Selection
DAS has issued the notice of intent to award for the PA, identifying Energy Solutions as the selected proposer. Staff is looking forward to working with DAS and Energy

[8] For example, it is unknown whether ongoing costs will be recovered per participant, per kW, per kWh and whether additional mechanisms, such as project application fees, will cover a portion of ongoing costs.

Solutions in the contracting phase and will continue to provide updates to the Commission.

Cost Recovery

The utilities provided thoughtful proposals for CSP start-up and ongoing cost recovery. In addition, CUB and the Solar Parties provided valuable feedback on the utilities' proposals.

To continue progress on cost recovery activities, Staff proposes the following next steps:

- PAC and PGE file applications to defer start-up costs as soon as possible.
- All three utilities will work with stakeholders and Staff to resolve remaining issues related to utility start-up cost recovery by the end of November 2018.
- PAC and PGE will file tariffs when PA/LIF start-up costs are known and efforts to resolve outstanding utility start-up costs recovery issues conclude.
- Staff will work with the PA, utilities, and stakeholders to establish ongoing cost recovery after the PA is onboard. Further, stakeholders and Staff will work with the PA to consider the Solar Parties' suggestions related to the distinction, measurement, and communication of various CSP costs.
- Staff will continue to update the Commission on the status of cost recovery efforts, including a status update no later than November 2018.

PROPOSED COMMISSION MOTION:

Informational filing - no recommendation.

UM 1930 Update

Idaho Power Company – Oregon Community Solar Cost Recovery

Deferral of Start-Up Costs:

In August 2016, Idaho Power filed a deferral for start-up costs for the Oregon community solar program under Docket UM 1795. The Company requested re-authorization of that deferral in March 2018. Start-up costs include costs that the utility will incur to implement the program as well as funding for the third-party administrator.

- Utility start-up costs
    - Legal/Professional and Consultant Fees
    - Modification of IT Systems
    - Other – unidentified costs that may be incurred to develop CS program

- Third-Party Administrator Funding – start-up costs

Idaho Power recommends that all start-up costs internal and external (Program Administrator funding) continue to be deferred per the authorized deferral in UM 1795 until those costs are recovered in rates.

Allocation of Third-Party Administrator Start-Up Costs

Idaho Power, PacifiCorp, and Portland General Electric recommend allocating Third-party administrator start-up costs based on the 2016 Oregon average customer counts. Using customer count from the 2016 Oregon Utility Statistics book the allocation would be IPC – 1.3%, PAC – 39.5%, and PGE – 59.2%.

Recovery of Start-Up Costs

Idaho Power's recommendation is to request amortization and collection in rates of the deferred start-up costs at the point when the start-up period has ended and on-going costs will be borne by community solar participants. In a similar fashion that amortization of deferred intervenor funding is collected through Idaho Power's Oregon Schedule 56, Power Cost Adjustment Mechanism, Idaho Power recommends that amortization of the deferred start-up costs be collected through Schedule 56 and not be subject to deadbands.

Ongoing Internal Administrative Costs

Idaho Power plans to file a deferral with a balancing account to track ongoing internal administrative costs of the Program. These costs will be recovered from the community solar program participants. Idaho Power envisions that the rate(s) established to recover the internal ongoing administrative costs will be part of the community solar program tariff.

Recovery of Bill Credits and PPA costs

The bill credits paid to customers and the PPA costs should be included in Idaho Power's Annual Power Cost Update (APCU) as purchased power expenses which would be 100% directly assigned to Idaho Power's Oregon jurisdiction.

Portland General Electric
121 SW Salmon Street • Portland, Ore. 97204
PortlandGeneral.com

August 13, 2018

Via email: Caroline.Moore@State.Or.Us

Public Utility Commission of Oregon
Attn: Caroline Moore
201 High St. SE, Suite 100
P.O. Box 1088
Salem OR 97308-1088

RE: Portland General Electric's (PGE) Proposed Community Solar Cost Recovery Plan

Per Oregon Administrative Rule (OAR) 860-088-0160 – regarding Community Solar Program Funding – electric companies will recover start-up costs incurred during the development or modification of the Community Solar Program through electric company rates. The rules define start-up costs as:

1) Costs associated with the Program Administrator and Low-Income Facilitator; and

2) Each electric company's prudently-incurred start-up costs associated with implementing the Community Solar Program. These costs include, but are not limited to, costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric company developing a project.

To recover these start-up costs, PGE proposes to file for deferred accounting, as well as to use an accompanying automatic adjustment clause and balancing account to track the ongoing cost and recovery amounts for the start-up costs of the Community Solar Program. The use of an automatic adjustment clause will allow recovery of start-up costs to begin as soon as the cost data is approved by the Commission. A balancing account will provide the ability to track and true-up the amounts associated with Community Solar Program start-up. PGE proposes either the use of Schedule 105 – Regulatory Adjustments – or the filing of a new rider specific to the recovery of Community Solar start-up costs.

In addition to start-up costs, OAR 860-088-0160 also instructs the recovery of ongoing costs associated with the program administrator and low-income facilitator to be collected from participants. PGE similarly proposes the filing of a deferred accounting mechanism, as well as the use of an automatic adjustment clause paired with a balancing account to provide the ability to true-up recovery amounts.

Portland General Electric
121 SW Salmon Street • Portland, Ore. 97204
PortlandGeneral.com

Allocation proposed

As the Community Solar Program is statewide, the start-up costs relating to the Program Administrator and Low Income Facilitator should be allocated between the State's three investor-owned utilities. PGE proposes to allocate the costs of this statewide program in accordance with average customer counts – as listed in the 2016 Oregon Statistics Book. The allocated percentages would be as follows:

- PGE – 59.2% of statewide start-up costs (859,396 customers)
- PacifiCorp – 39.5% (574,131 customers)
- Idaho Power – 1.3% (18,848 customers)

Bill Credits

Per the Commission's order, the Community Solar Program will provide bill credits to subscribing customers at the retail rate for the first 40MW of program development, with a credit rate after the first 40MW of development to be determined. To recover the cost of bill credits, PGE proposes to include the bill credit amounts into PGE's Annual Update Tariff (AUT) filing, which would then be recovered through Schedule 125 – Annual Power Cost Update. PGE recommends that these bill credit costs not be subject to deadbands. This recovery mechanism would be applicable to all cost-of-service bills for electricity service served under the following schedules: 7, 15, 32, 38, 47, 49, 75, 83, 85, 89, 90, 91, 92, and 95.

Table 1 below is intended to summarize PGE's proposals in this memo:

Recovery	Proposed treatment	Proposed Recovery Schedule
Start-up costs	Deferred accounting, with automatic adjustment clause and balancing account	Schedule 105, or initiation of new schedule specific to community solar
Ongoing Costs	Deferred accounting, with automatic adjustment clause and balancing account	Schedule 105, or initiation of new schedule specific to community solar
Bill credits	Inclusion in PGE's AUT, credit amount not subject to deadbands	Schedule 125 – Annual Power Cost Update

Table 1 – PGE cost recovery proposals for Community Solar Start-up

PacifiCorp Regulatory Affairs
Community Solar Cost Recovery Plan
Provided to Staff August 13, 2018

This document summarizes PacifiCorp's regulatory plan for cost recovery of PacifiCorp's costs related to the Oregon Community Solar program.

Costs expected for establishing Oregon Community Solar Program
Costs categories have been identified as follows. Note that both start-up costs and on-going costs exclude any costs associated with PacifiCorp developing its own community solar project. If PacifiCorp develops its own community solar project, those costs will be separate from the costs described below and are only recoverable from the participants in that project.

Oregon Community Solar Program – PacifiCorp Cost Recovery Summary

Cost category	Description	How recovered
Start-up costs	Costs associated with developing the facilitation of the community solar program including: • Program administrator • Low income facilitator • PacifiCorp's incremental costs of implementing community solar programs (customer account data transfer, on-bill crediting and payment, etc.)	Recovered from all customers through a separate tariff rider
On-going costs	• Program administrator • Low income facilitator • PacifiCorp's incremental costs of maintaining availability of community solar programs for customers	Recovered from community solar program participants through a separate tariff rider (and separate from the start-up costs tariff rider)
Participants' bill credits and unsubscribed energy Power Purchase Agreement costs	PacifiCorp's costs for: • Bill credit to participants at a fixed rate for 20 years • Purchase of unsubscribed energy from projects at "as available" avoided cost rates	Recovered from all customers through net power costs set in the Transition Adjustment Mechanism (TAM); any 2019 costs will be deferred for later inclusion in the start-up costs tariff rider.

Allocation of Costs Associated with Program Administrator and Low Income Facilitator
PacifiCorp, Portland General Electric Company and Idaho Power Company propose to allocate these costs on the basis of 2016 Oregon average customer counts.

	Average Customers	
	Amount	Percentage
Idaho Power	18,848	1.30%
PacifiCorp	574,131	39.53%
PGE	859,396	59.17%
	1,452,375	
source: 2016 Oregon statistics book		

PacifiCorp Cost Recovery Required Filings
Start-up costs
Cost recovery of start-up costs will be achieved through a cost-of-service automatic adjustment clause to allow recovery of projected costs along with a balancing account to track over- and under- collections of actual costs. Required filings will include an application for deferred accounting to approve the use of a balancing account for the costs of start-up of the community solar program and collections associated with start-up costs and a tariff advice filing to implement a new rate schedule to collect these costs from all customers. PacifiCorp highlights the fact that its start-up costs will include capital projects, for which PacifiCorp will seek recovery of return on and return of in rates, which will be recorded in the proposed balancing account.

On-going costs
At some point in time as determined by the program administrator and stakeholders, a separate stream of cost recovery for on-going costs will be established. Recovery of these costs will be similar as to that for start-up costs, through a cost-of-service automatic adjustment clause to allow recovery of projected costs along with a balancing account to track over- and under-collections of actual costs. Required filings will include an application for deferred accounting to approve the use of a balancing account for the costs for on-going community solar program maintenance and collections associated with on-going costs and a tariff advice filing to implement a new rate schedule to collect these costs from community solar program participants.

Participant bill credits and unsubscribed energy costs
PacifiCorp is obligated to credit community solar participants at a fixed rate for 20 years and purchase unsubscribed energy from community solar project managers at "as available" avoided cost rates. Recovery of these costs will be set annually through the TAM as part of net power costs. The cost associated with bill credits will be situs-assigned to Oregon to be collected from all Oregon customers. Recovery of unsubscribed energy costs at avoided cost rates will be system-allocated to be collected from all customers.

PacifiCorp emphasizes that variances in actual and forecasted TAM amounts should be tracked separately and should not be subject to the deadbands and earnings test of the power cost adjustment mechanism. Note that recovery of these costs for 2019 will need to be achieved through a separate deferral.

Next step

- File deferred accounting application to support the balancing account that will track variances related to start-up cost actuals and tariff rider collections. This filing can be targeted for late August/early September.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1930

In the Matter of	)
	)
PUBLIC UTILITY COMMISSION OF OREGON,	)
	)
Community Solar Implementation.	)
	)

COMMENTS OF THE

OREGON CITIZENS' UTILITY BOARD

September 7, 2018

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1930

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Community Solar Program Implementation.	)	COMMENTS OF THE OREGON CITIZENS' UTILITY BOARD

I. INTRODUCTION

The Oregon Citizens' Utility Board (CUB) provides these comments on the preliminary cost recovery proposals circulated by Portland General Electric (PGE), PacifiCorp (PAC), and Idaho Power Company (IPCO) in the above-captioned proceeding. CUB appreciates the opportunity to provide written comments at the request of an August 24, 2018 email by Oregon Public Utility Commission Staff (Staff). CUB realizes the community solar program was mandated by SB 1547 and that certain costs are provided recovery in OAR 860-088-0160. Therefore, we understand the utilities' need to come up with creative mechanisms to recoup community solar-related costs. However, we do have some concerns with the utilities' proposals as circulated. CUB's comments will examine the utilities' proposed treatment of start-up costs and ongoing costs before detailing any remaining concerns.

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II. START-UP COSTS

As PGE correctly details, OAR 860-088-0160(1) provides for the recovery of: (a) costs associated with the Program Administrator and Low-Income Facilitator; and (b) prudently incurred costs associated with implementation including customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the development of a project. All utilities propose using deferred accounting to track these costs for later amortization into rates. Additionally, both PGE and PAC propose utilizing a cost-of-service automatic adjustment clause and an accompanying balancing account to begin recovery of these costs immediately and track and true-up costs as the programs are implemented.

A. *Capital Expenditures*

PAC explicitly notes that its start-up costs will include capital projects for which it will seek a return *on* and a return *of* its investment. CUB assumes that PGE and IPCO will also seek cost recovery for capital additions to their IT and billing systems. This presents a couple issues. First, SB 1547 was passed in 2016, and the utilities have now had approximately two and a half years to plan for the rollout of community solar programs and the attendant necessary expenditures. In the meantime, the utilities have been outlaying capital to upgrade their billing and IT systems. PGE specifically rolled out its new CIS system in Q2 of 2018. In short, the utilities should have seen this coming, and upgrades to their systems needed to administer the community solar program should have already occurred. To the extent the utilities believe that new capital additions are necessary, CUB believes there needs to be adequate opportunity to conduct a necessary prudence review, as OAR 860-088-0160(1)(b) dictates. Even non-capital start-up costs must be subject to the same stringent review. Specifically for capital additions, CUB believes the utilities need to offer concrete, detailed explanations of why these costs are required.

Second, whether the Commission has the requisite authority to approve a deferral for capital expenditures (*i.e.*, whether it is legal or should be allowed from a policy perspective) remains an outstanding issue. That issue was fully litigated in Docket No. UM 1909, and currently awaits Commission decision.[1] Traditional ratemaking principles dictate that capital expenditures are, and have always been, properly brought forth for recovery in a general rate case proceeding and subject to regulatory lag. The utilities' proposals to defer the capital costs associated with community solar investment may be barred pending the outcome of this decision. The continued trend to seek to defer capital costs in Oregon threatens to erode the bedrock principles of ratemaking, and the utilities' proposals in this proceeding are no different.

B. *Allocation Proposal*

CUB is supportive of the utilities' proposals to allocate start-up costs associated with the co-utilized Program Administrator and Low Income Facilitator on the basis of 2016 Oregon average customer counts. Similarly, CUB believes it is reasonable to spread start-up costs amongst all ratepayers, rather than only to program participants. While the program is in its infancy, it is appropriate to utilize costs from a broad range of utility customers to get it off the ground.

III. ONGOING COSTS

CUB supports the utilities proposal to recover ongoing costs only from community solar program participants. This aligns with general ratemaking principles of cost causation. CUB notes that the email from Staff described the utilities' proposals as only their treatment of *start-*

[1] *See in re Public Utility Commission of Oregon Investigation of the Scope of the Commission's Authority to Defer Capital Costs*, OPUC Docket No. UM 1909.

up costs. While it is important to detail proposals of how ongoing costs should be recovered as well, CUB believes that a clear delineation be outlined regarding what constitutes a start-up vs. an ongoing cost. This will help ensure that only community solar participants are levied with ongoing costs. CUB supports PAC's proposal to work with the program administrator and stakeholders to establish a stream of recovery for ongoing costs. This will ensure adequate stakeholder review.

IV. GENERAL CONCERNS

A. *Use of a Balancing Account*

As discussed, CUB recognizes that the community solar program was mandated by the legislature, and provisions in the administrative rules provide cost recovery to the utilities. However, the use of a balancing account to provide dollar for dollar recovery to the utilities has the potential to detract from stakeholders' and the Commission's ability to conduct an adequate prudence review as required by OAR 860-088-0160(I)(b). When a deferred accounting application is reviewed for later amortization in rates, stakeholders have at least some opportunity to review costs for prudence. From CUB's experience, balancing accounts are often established in manner which allows costs to be passed through to customers without adequate review. In addition, guaranteed dollar-for-dollar recovery from a balancing account removes any incentive for the utility to control its costs. CUB generally supports allowing utilities to forecast the expected cost of this program into rates as is done with most other necessary costs. CUB believes that the use of a balancing account should not be allowed in the context of community solar program cost recovery.

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B. *PAC's Proposal to Forecast Participant Bill Credits and Unsubscribed Energy Costs in its Transition Adjustment Mechanism (TAM)*

PAC proposes to annually forecast the costs associated with program participant bill credits and the purchase of unsubscribed energy costs annually through its TAM. The TAM is PAC's annual proceeding in which it forecasts net variable power costs. The variance between forecasted and actual power costs is then trued up through its annual power cost adjustment mechanism (PCAM). However, the PCAM contains an asymmetrical deadband, and, if the difference between forecasted and actuals falls within that deadband, PAC cannot recover the relative shortage and customers cannot recover the relative benefit. Here, PAC is proposing to remove these community solar forecasted costs from being analyzed in the PCAM. This means that, regardless of any minor variances between forecasted and actual costs, PAC will receive total recovery of these costs. CUB opposes this fundamental change for a couple reasons.

First, it unnecessarily complicates both the TAM and the PCAM in a way that undermines how the two mechanisms interact. Containing a portion of forecasted costs that are subject to a deadband and a portion of costs that are not subject to a deadband has the potential to set a poor precedent that demonstrates that other forecasted costs may also not be subject to the deadband. Second, it detracts from PAC's incentive to control costs in a forecasted year. The TAM is forecasted *annually*. Therefore, PAC is not taking on a significant risk due to year-to-year variances (*i.e.*, it is not forecasted a cost that it is then stuck with for several years). The goal of the TAM is to set as accurate forecasted costs as possible. PAC should have to retain the incentive to control costs and set an accurate a forecast as possible.

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Signed this 7th of September, 2018.

Michael P. Goetz, OSB #141465
Staff Attorney
Oregon Citizens' Utility Board
610 SW Broadway, Ste. 400
Portland, OR 97205
T. 503.227.1984 x 16
F. 503.224.2596
E. mike@oregoncub.org

OSEIA

COALITION FOR COMMUNITY SOLAR ACCESS

PO Box 65491
Washington, DC 20035
202-888-6252
info@communitysolaraccess.org
communitysolaraccess.org

RE: Comments on Utility Cost Recovery Proposals

The Oregon Solar Energy Industries Association and Coalition for Community Solar Access (Solar Parties) offer these comments in response to the utility cost recovery proposals submitted to the Public Utility Commission (PUC) Staff. We appreciate the opportunity to provide this feedback. Our comments and recommendations are captured in the following four bullet points.

- **Balancing transparency with expediency**. Any costs the utilities are attributing to the community solar program (start-up and ongoing) should be fully transparent to the PUC, in particular to avoid those funds supporting other programs or utility functions without adequate tracking and accounting. The Solar Parties defer to the Citizens Utility Board (CUB) with regards to the best practices associated with cost recovery. However, we also note that due diligence in this area should be balanced with enabling and empowering the utilities to establish the program infrastructure, as needed, in a timely manner that will not delay the program launch or operability.

  From the customer's perspective, the Solar Parties would also emphasize the importance of displaying administrative costs – if appropriate - in as simple a manner as possible, and to be sensitive to what participants and non-participants would be viewing on their bills. This topic has been discussed at some level in the Utility Data Exchange Subgroup (see notes submitted to the PUC Staff on Dec. 29, 2017 as well as meeting notes from the July 9 meeting regarding participant bill display), though there has not been consideration regarding how – if at all – the start-up costs for the program would be reflected on all rate payer bills.

- **Defining utility administrative "start-up" vs. "ongoing" costs**. There remains an important outstanding question relating to whether "ongoing" utility administrative costs (not associated with the Program Administrator) are recoverable through rates or should be recovered through participants. The legislation is clear in suggesting that "start-up" costs are recoverable through rates and "ongoing" costs are recoverable through participants[1], however it gives the PUC discretion to define those two terms. Consequently, 860-088-0160 defines "start-up" costs as costs associated with the Program Administrator and Low-Income Facilitator, and "***Each electric company's prudently-incurred start-up costs associated with implementing the Community Solar Program. These costs include, but are not limited to, costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric company developing a project.***[2]" Conversely, "ongoing" costs are defined as "***including costs associated with the Program Administrator and the Low-Income***

[1] SB 1547 Section 22. (7)(c-d)
[2] OAR 860-088-0160(1)(b)

Facilitator." There is no mention of utility ongoing administrative costs. If anything, the rules suggest that any incremental investments made by utilities to support the administration of the program are to be deemed "start-up" costs, and therefore recoverable through rates. Though Staff has confirmed that this question remains unresolved and it was called out as something under consideration in the Utility Data Exchange Subgroup (see July 9 meeting notes), the proposals for PacifiCorp and Idaho Power (PGE did not address the issue) suggest there will be ongoing utility administrative costs recovered from participants.

In addition to relying on the stated rules, it's worth noting that utility investments could spill over to benefit other utility operations – unlike the Program Administrator functions - which would in turn further justify placing the recovery of those costs on all rate payers rather than just the community solar participants. Finally, the Solar Parties would argue that utility administrative cost recovery could be one area to reduce the cost of participation and improve the program economics more generally, which we've highlighted as a concern in previous comments submitted under UM 1930.[3]

- **Using RVOS as a basis for determining rate impacts.** The resource value of solar (RVOS) should be used as the basis when considering the incremental funds associated with utility compensation for subscribed power, rather than using standard practices associated with avoided cost rates. Measuring the delta between the RVOS and credit rate would provide a more accurate assessment of any incremental rate impact (positive or negative) attributed to the community solar program. It would also be a step toward the PUC's stated intent to continue considering the role of RVOS in support of the program's credit rate. That said, the Solar Parties would also note that the RVOS methodology itself is deserving of continued improvements and that we do not view its current state as capturing the most comprehensive value for distributed solar generation.

- **Defining the transition from start-up to ongoing costs.** Delineating the start-up and ongoing costs of administration and associated transition are critical aspects of the overall program design and cost recovery assumptions. For example, if no money is being collected because there is a lack of program participation or simply due to the delay between pre-certification and certification, the PA may not be receiving adequate funding to support their operations. This issue was discussed during a Utility Data Exchange Subgroup meeting last year (see attached Nov. 8, 2017 Meeting Minutes), and the concept of phasing the program cost recovery transition was introduced as a reasonable solution. In essence, there was recognition that there will likely need to be a minimum number of projects developed and customers enrolled to ensure a sustainable recovery of administrative costs. The Solar Parties recommend using the interim capacity allocation (25% of the initial capacity tier) as the "start-up" phase of the program whereby all administrative costs incurred through the pre-certification of that capacity are considered "start-up."

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[3] See OSEIA-CCSA comments submitted April 30, 2018.
https://edocs.puc.state.or.us/efdocs/HAC/um1930hac164146.pdf

There are two other important and related considerations. First, the Solar Parties recommend that the calculation of any ongoing administrative costs be established based on an expectation that - at least - the entire initial capacity tier of the program is certified and operating, so as not to penalize first-mover participants with higher administrative fees. Instead, these costs should be spread evenly across the entire anticipated program. In addition, any administrative fees on participants - or lack thereof as we suggest for the interim capacity allocation – should never increase on a given project and its participants after pre-certification. Uncertainty in this area could create significant risk for participants and investors. That said, the administrative fee should be able to decline for existing projects and participants if those administrative costs go down as the program expands (e.g., a second capacity tier is established).

The Solar Parties appreciate this opportunity to provide input on the administrative cost recovery for the program and we look forward to further discussions around this topic.

Respectfully submitted,

/s/ Brandon Smithwood
Policy Director, CCSA
brandon@communitysolaraccess.org
(978) 869-6845

/s/ Jon Miller
Executive Director, OSEIA
Jon@oseia.org
(503) 701-0792

[Utility Data Exchange Subgroup-Nov.082017-Minutes]

Meeting Minutes

[Date of meeting]

Organizations Present: PGE, PacifiCorp, Idaho Power, OPUC Staff, ODOJ, ETO, CUB, Renewable Northwest, Climate Jobs Portland, CEC, (there were others as well I just lost count)

Next meeting: TBD Lloyd Center

Program Flow Chart Discussion

Numerous issues were discussed an updated flow chart will be circulated

Subscription Type Limitations

The discussion tried to determine if there were rational limitations that should be placed on the type of subscriptions that can be offered to participants.

Common Understanding: Individual customer subscription amounts will be calculated and tracked by the third party administrator and provided to the utility. This provides some flexibility in the type of subscription structures that could be permitted. A competing concern is the ability to communicate this information on customer bills. For the utility to be able to communicate computation type information (shares*price= monthly cost) the format for subscriptions must be consistent for all on bill collections. This would limit the flexibility for subscription models that are collected on bill. If the expectation is that information presented on the bill is just limited to the total, with detailed information provided through another system, then there is significant flexibility.

There was also uncertainty regarding whether on bill subscription collection is mandatory or permissive? The group thought permissive use of the billing system for subscription collection was better.

Action Items:

1) Clarify with Commission whether on bill subscription collection is permissive or mandatory.
2) CEC (Charlie Coggeshall) volunteered to survey likely project managers for different varieties of subscription models to educate the group.

On Bill Display

Discussion focused on potential limitations in the type and amount of information that can be provided on the bill. This built on the previous discussion related to subscription type and on bill display limitations.

Primary Question: Subscription Cost and Energy Credit should be shown as separate line items. The question is how to reflect administrative costs. Should they have a separate line item, or should they be included in either of the other two line items as a modification to the total.

Actions Item: The utilities agreed to determine what limitations there are on what information can be provided on the bill. (For example character limits, imbedded computations and the like). They also would try to bring bill mock ups to illustrate the issues if possible.

Customer Information and Privacy Requirements

Discussion focused on customer usage information and how project managers would access that.

Common Understanding: The program administrator will have access to customer usage information through a Consumer Information Transfer Agreement similar to the agreement currently in place between ETO and the utilities. The program administrator will seek approval from the Commission of the necessary consent requirements that a project manager must get from a potential participant before this customer information can be shared with the project manager. The commission should also determine limits of what type of information can be shared.

Action Item: None for now

Tariff Regulatory Structure and Timing

Discussion was designed as a brainstorm session on the potential required dockets and different areas for needed commission approval. It also tried to set a high level timeline of one these dockets should begin. The table below reflects the consensus.

Issue	Who	Initiated?
Standardized QF/PPA Agreement between the utility and Project Managers for Unsubscribed Energy	Each Utility	1st Quarter
Utility Cost Recovery Balancing Account	Each Utility	1st Quarter
Utility Deferred Accounting Approval	Each Utility	ASAP
Community Solar RVOS Tariff	Each Utility	2nd Quarter
Community Solar Program Tariff for Customers	Each Utility	Late 2nd Quarter
Company Project Tariff	Each Utility	Upon decision to initiate project
Data Privacy Docket	Program Administrator	2nd Quarter
Program Handbook Approval	Program Administrator	When Complete

Additional Issues Identified: It was unclear if a standard contract would be necessary between the utility and a participant in a third party community solar project, or if the standard program tariff would suffice. If a contract is required an additional docket is required to approve those contracts.

Administrative Cost Recovery Discussion

Discussion was designed as a brainstorming session on how to delineate between start-up costs and on-going costs of administration.

Useful visioning considerations: The preliminary discussion focused on should the delineation be based on a timing issue or a money collected issue. There was general agreement that potential program administrators may have useful thoughts on how to draw this line. A phasing concept was raised as a way to potentially discuss the topic using the same language.

Phase	Description	Recovery Responsibility
Phase 1	Program Development: all expenses related to developing the structure of the program	General Ratepayers

Phase 2	Precertification/Initial Project Development Stage: Projects have been pre-certified but no projects are completed so no participants are contributing administrative costs	General Ratepayers
Phase 3	Initial Program Operations: Early projects are coming online, Administrative costs are being collected from participants, those collections are insufficient to recover all administrative costs	Shared
Phase 4	Ongoing Program Operations: Sufficient projects are developed and customer enrolled to cover all administrative costs	Participants

The discussion revolves around how the administrative costs in Phase 3 of the program are collected.

An additional concern was on establishing initial administrative costs. The requirement is that project managers provide accurate financial estimates to potential participants. In order to provide this the participant's share of administrative costs must be known. The thought was that the Administrative costs could be set for a project during precertification, and this would then operate as a ceiling for that project. When sufficient additional projects came online these costs could be reduced to reflect the larger pool of participants that are sharing the costs

Roundtable Issues

Issues identified for future discussions

- How customer non-payment will impact bill will be treated if they are a community solar participant. (Leverage On Bill Repayment principles)
- Discuss Generalized Customer Care requirements for the utility and how those obligations are shared between the Utility, the Program Administrator, and the Project Managers.
- Is a low income specific RVOS the proper way to encourage/incentivize low income participation.