

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: January 30, 2012**

REGULAR  X  CONSENT       EFFECTIVE DATE  April 1, 2012

DATE: January 25, 2012

TO: Public Utility Commission

FROM: Moshrek Sobhy

THROUGH: Bryan Conway, Maury Galbraith and Lori Koho

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

**STAFF RECOMMENDATION:**

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

A. Small Systems:

Rate Class	Area	Utility	Current VIR per kW <sup>1</sup>	Proposed VIR per kW
1	Benton, Clackamas, Clatsop, Columbia, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill	Pacific Power and PGE	37.4 cents	41.1 cents
2	Coos, Douglas, and Hood River	Pacific Power and PGE	34.6 cents	34.6 cents
3	Gilliam, Jackson, Josephine, Klamath, Morrow, Sherman, Umatilla, Wallowa, and Wasco	Pacific Power	34.6 cents	34.6 cents
4	Baker, Crook, Deschutes, Jefferson, Lake, Malheur, and Harney	Pacific Power and Idaho Power	31.7 cents	31.7 cents

<sup>1</sup> See Order No. 11-280

B. Medium Systems:

Rate Class	Current VIR per kW	Proposed VIR per kW
1	31.7 cents	28.5 cents
2	31.7 cents	25.0 cents
3	31.7 cents	25.0 cents
4	31.7 cents	25.0 cents

**DISCUSSION:**

Prior to the October 2011 enrollment period, the Commission modified the Solar Photovoltaic Pilot Program’s (Program) Automatic Rate Adjustment Mechanism (ARAM) so that it would be compatible with a lottery-based allocation method.<sup>2</sup> Under the modified ARAM the rebuttable presumption for the change in VIR is based on ratio of adjusted capacity reservation to total available capacity as shown below:

<b>Ratio of Adjusted Capacity Reservation Requests in kW to Available Capacity</b>	<b>VIR Change</b>
The adjusted capacity reservation requests at the end of the three-month enrollment window exceed 150% of the available capacity.	Decrease by 10 percent
The adjusted capacity reservation requests at the end of the three-month enrollment window are greater than 125% of the available capacity, but do not exceed 150%.	Decrease by 5 percent
The adjusted capacity reservation requests at the end of the three-month enrollment window are greater than 75% of the available capacity, but do not exceed 125%.	No Change
The adjusted capacity reservation requests at the end of the three-month enrollment window are greater than 50% of the available capacity, but do not exceed 75%.	Increase by 5 percent
The adjusted capacity reservation requests at the end of the three-month enrollment window are less than 50% of the available capacity.	Increase by 10 percent

On January 4, 2012, Staff convened a workshop to discuss the VIR for the April 2012 enrolment period. Representatives from Portland General Electric (PGE) and Pacific Power (collectively “Joint Utilities”), Idaho Power, 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), Life Solar, and others participated in the workshop. The Joint Utilities

<sup>2</sup> Order No. 11-339.

and Idaho Power presented the results of the October 2011 enrollment period in their respective service areas. Participants discussed the results and their implication in setting the VIR for the April 2012 enrollment period.

The utilities reported the following results as of December 31, 2011:

	PGE	Pacific Power	Idaho Power
Small kW available capacity	1,513	902	386
Small kW adjusted capacity reserved <sup>3</sup>	645	798	386
<b>Adjusted capacity reserved ratio</b>	<b>42.6%</b>	<b>88.5%</b>	<b>100%</b>
Medium kW available capacity	769	429	N/A
Medium kW adjusted capacity reserved	699	434	
<b>Adjusted capacity reserved ratio</b>	<b>90.1%</b>	<b>100%</b>	
<i>Medium Scale bidding summary</i>			
Lowest bid, cents/kW	26	20	
Highest bid, cents/kW	40	33.78	
Average winning bid, cents/kW <sup>4</sup>	26.84	21.11	
Average losing bid, cents/kW <sup>5</sup>	30.59	26.98	

Idaho Power reported 100 percent of the capacity available was filled within 12 minutes of enrollment opening. This was the last enrollment period for Idaho Power under the Pilot Program and therefore, it is not necessary to establish a new VIR for Idaho Power. Pacific Power reported 88.5 percent of the capacity available was filled during the enrollment period (the three months ending December 31, 2012). Under the rebuttable presumption in the ARAM, Rate Classes 1 and 2 should not change. PGE reported 43 percent of the available capacity was successfully reserved during the enrollment period.<sup>6</sup>

Both PGE and Pacific Power serve Portland and the surrounding areas (Rate Class 1). However, PGE is the predominant program provider in this zone. Therefore, this should be taken into consideration when evaluating the reported results from October 2011 enrollment period to determine the VIR for the April 2012 enrollment period.

The participants noted the possible impact of the 20 percent reduction in VIR that was implemented in October 2011 on the reported subscription results (adjusted capacity reservation). Additionally, the parties discussed the impact of other factors such as the

<sup>3</sup> Adjusted capacity reservation as defined in Order No.11-339.

<sup>4</sup> After removing the outlier bid.

<sup>5</sup> After removing the outlier bid.

<sup>6</sup> Both PGE and Pacific Power follow the methodology approved by the Commission in Order Nos.11-089, 11-280, and 11-339, i.e. reservation through the lottery system in the first 24 hours followed by reservation on a first-come, first-served basis during the remainder of the enrollment period.

continuing difficulty to access financing, and the Program modifications that were implemented in the October 2011 enrollment period.

On January 17, 2012, comments were submitted by the Joint Utilities, Idaho Power, OREP, OSEIA, RNP and CUB. The parties took different positions in analyzing and interpreting the utilities' subscription results. Consequently, parties had different positions on the implementation of ARAM and setting the VIR levels for the April 2012 enrollment period. A summary of the Parties' and Staff's recommendations is provided below:

#### **A. Small scale systems (no greater than 10 kW)**

- Joint Utilities propose to continue employing ARAM and maintaining a single VIR for customers of the same rate class regardless of the utility serving them. For Rate Class 1, Joint Utilities propose a five percent increase and no change to Rate Classes 2, 3 and 4

In addition to the factors previously mentioned, Joint Utilities note the potential impact of the increase in the required deposit for small systems on the subscription rate reported for the October 2011 enrollment.<sup>7</sup> Joint Utilities also learned from customers' inquiries that there was an apparent lack of information about the Program. Many of those customers, according to Joint Utilities, chose to enroll under the traditional net metering program. Nevertheless, with multiple factors affecting the Program in the same time, it is not clear for Joint Utilities whether the drop in the VIR is the primary factor contributing to the lower subscription period (especially in PGE's case).

According to Joint Utilities, if the VIR for Rate Class 1 were to be set based on the results reported by each utility separately, Pacific Power's VIR would remain at the current level, while PGE's VIR would increase by 10 percent. Joint Utilities do not recommend having two different VIR in the same zone as this would likely confuse customers.

- OSEIA proposes a 20 percent increase in the VIR across the board while maintaining one rate to all customers of the same zone. OSEIA opines that the Commission should consider the market and employ an alternative to the ARAM. OSEIA argues that an indication for the need to consider replacing the ARAM, is the fact that the Commission established the VIR in the last two enrollment periods outside of the ARAM's rebuttable presumption criteria. In support of its

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<sup>7</sup> A small 5kW system would have paid \$100 deposit prior to the October 2011 compared to \$500 after the rule modification, see OAR 860-084-0195(5).

argument to increase the VIR, OSEIA also observed that the final number of installations is usually lower than the subscription rate since some applicants eventually drop out of the program even after paying the deposit.

- RNP and CUB presented joint comments recommending stability and sustainability through the use of the ARAM to set the VIR. However, RNP and CUB suggest that implementing a single VIR in the zone served by PacifiCorp and PGE may raise additional problems. It appears that RNP and CUB recommend a 10 percent increase in PGE's service area while maintaining PacifiCorp's at the current levels. While the RNP and CUB comments indicate that they don't disagree with a 20 percent increase across the board, they oppose eliminating the ARAM as this would result in another change to the Program, which does not promote the Program's stability and sustainability.
- OREP points to the variation in the insolation rates as the most plausible reason for the difference in the subscription rates between PacifiCorp's service area (predominately in central and eastern Oregon) and PGE's service area (concentrated in Portland and the surrounding areas). OREP also suggests that ARAM should be abandoned to improve the subscription rate. OREP proposes 15 percent increase for Rate Classes 1 and 2, and five percent increase for Rate Classes 3 and 4. All rates will then be multiplied by an insolation factor to calculate OREP's proposed VIR for all classes. This will result in a different VIR for each of the four zones.

#### **B. Medium scale systems (greater than 10 kW but no greater than 100 kW)**

- Joint Utilities propose to set the VIR by rate class based on each utility's competitive bidding results. Joint Utilities established a range between the average winning price and average losing price. For Rate Class 1, where PGE is the predominant utility, the most recently authorized VIR would be decreased by 10 percent from 31.7 cents per kW to 28.5 cents per kW. For Rate Class 2, 3 and 4, where Pacific Power is the predominant program utility, the VIR would be decreased by 20 percent from 31.7 cents per kW to 25 cents per kW.
- OSEIA proposes to set the VIR at the highest winning bid based on the results reported by each utility.
- RNP and CUB opine that the results of implementing competitive bidding provide a clear indication of the market-clearing medium-scale VIR. RNP and CUB

propose to use the average of the winning bids noting that there is a slight difference between the average winning bid and the high winning bid.

- OREP suggests that Medium Scale VIR should be set by zone to reflect the difference in the solar resource between the sunnier zones (Rate Classes 3 and 4) compared to the less sunny zones (Rate Classes 1 and 2). OREP recommends a VIR no lower than the highest winning bids in respective zones.

### **Staff's Analysis**

For the small scale systems, Staff recommends:

- Increase the VIR for Rate Class 1 by 10 percent to 41.1 cents per kW.
- Maintain current VIR in Rate Classes 2, 3 and 4.

As noted above, many modifications have been implemented to the Program in addition to the 20 percent drop in the VIR during the last enrollment period. Pacific Power's results of 88.5 percent indicate successful program subscription that the current VIR for Rate Classes 3 and 4 may very well be at or very close to market. Further, the Commission's approved methodology, allowing a 24-hour period for capacity reservation through the Lottery system followed by a first-come, first-served process, produced good results as well. Staff believes that PacifiCorp's reported results of 88.5 percent adjusted capacity reservation rate indicate a successful enrollment period over all.<sup>8</sup> No significant modifications to the Program should be considered at this time to provide stability for the Program. Staff recommends continuation of the ARAM.

Staff recognizes that many factors as previously discussed may have contributed to the lower subscription rate in PGE's case. However, the majority of these factors are common among all rate zones and utilities. This suggests that the insolation rate is the most significant factor that varies noticeably among the different zones. This is consistent with the reported subscription rates.

In Rate Class 2, PacifiCorp is the predominant program, and reported higher subscription rates than PGE. Increasing the Rate Class 2 VIR by the same percentage as in Rate Class 1 would be excessive. Staff recommends no change to Rate Class 2.

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<sup>8</sup> Pacific Power provides service in all rate classes.

For the medium scale systems, Staff recommends:

Results for medium scale systems during the October 2011 enrollment period are 90.1 percent and 100 percent for PGE and Pacific Power, respectively. This indicates that capacity reservation through competitive bidding method is well received in the market for medium scale systems. In Pacific Power's case, the average winning bid price was only 1.1 cents/kW higher than the lowest bid received. In PGE's case, the difference was less than one cent/kW (after removing the outlier bid of 40 cents/kW).

Based on these results, Staff supports Joint Utilities' proposed VIR for medium scale systems.

- Rate Class 1: 28.5 cents per kW.
- Rate Class 2: 25.0 cents per kW.

**PROPOSED COMMISSION MOTION:**

Staff recommended VIR be allowed to go in effect April 1, 2012.