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Date: August 29, 2012

Subject: Docket No. 11-035-104: In the Matter of the Investigation into Extending and Expanding the Solar Incentive Program and Possible Development of an Ongoing Program.

Background

On December 21, 2011, the Public Service Commission (Commission) approved a one-year extension and expansion of the Solar Incentive Program (Program), which had originally been approved in August 2007 as a five-year pilot program. The Commission also ordered the Division of Public Utilities (Division) to lead a workgroup that would investigate extending and expanding the Program.

Beginning in February 2012 and continuing through August 2012, the Division led a series of workgroup meetings, technical conferences and settlement discussions related to the solar incentive program. Participants in the discussions represented a variety of interests including the Company, regulatory agencies, solar industry representatives, various government entities and parties interested in participating in a solar incentive program. The discussions were open to all stakeholders.¹ Through these meetings analyses were conducted and concerns and views on various issues were shared in an attempt to reach a more common understanding of issues regarding solar project incentives and the interaction with regulatory requirements and concerns.

¹ PSC staff was excluded from settlement talks.

Prior to the first meeting in February parties were requested to submit straw-man proposals for a solar incentive program. Seven parties, including the Office, submitted straw-man proposals. Each aspect of the proposals was discussed in an attempt to flesh out proposal elements that were acceptable to the greater number of participants.

For some of the parties the total dollar amount of Program costs that ratepayers would be responsible for as well as the annual dollar amount was an important issue. Addressing these concerns helped to shape the final agreement regarding incentive amounts as well as the kW cap on the annual participation levels.

The Application submitted by the Company on August 10, 2012, in large part is a reflection of the workgroup meetings and in the Office's view reflects the areas of agreement and compromise among many of the parties.

On August 10, 2012, Rocky Mountain Power (Company) filed an Application for Approval of a Solar Incentive Program (Application). The Application includes as exhibits the proposed tariff pages (Schedules 107 and 195) which describe the elements of the Program and the Solar Incentive Program cost adjustment (recovery), respectively.

Discussion

The Office will not address every aspect of the Program but will provide our general view of the Program and more specific comments and recommendations on certain issues.

Cost-effectiveness

From the Office's perspective one of the most important issues relating to the Program is that it be cost effective and that it remain cost effective over the Program life. Results of the Cadmus cost-effectiveness analysis indicate that the Program compares "very favorably to current demand side management and energy efficiency programs".

The Office accepts that the Program as proposed is cost effective and believes that through annual review cost effectiveness can be maintained.

Participation

The Program is structured to allow and encourage participation for various size systems classified as sectors. These sectors include: Residential ($\leq 4\text{kW}$); Small Non-Residential ($\leq 25\text{kW}$); and Large Non-Residential ($> 25\text{kW} \leq 1,000$). Incentive payment levels are specific to these sectors based on assumed costs associated with solar PV systems and installation. As indicated each sector also has a specific system cap size as well as an overall sector kW cap by year.

The creation of sectors ensures the opportunity for different customer classes to participate in the Program and should provide information on the interest level of different customer groups as well as the output of different system sizes at various sites. It is also important from the perspective that the majority of customer classes will be providing funds to support the Program.

Incentive Payments

For residential and small non-residential projects the incentive will be paid within 60 days of receipt of an approved incentive claim form to be submitted after the project is interconnected. Large non-residential projects will be paid in five installments. Similar to the other sectors the first installment will be paid within 60 days of the receipt of an approved incentive claim form submitted following interconnection. There are also provisions regarding the required output of these larger systems. Subsequent incentive payments may be reduced if the system does not operate to the production target expected output identified in the tariff. It is anticipated that paying out the incentive over time and the potential of reduced payments will encourage system owners to properly maintain their systems to achieve the best output.

The incentive payments were set based on feedback from and research about the solar industry and participants. The per kW incentive payments decline over the five-years of the Program in keeping with the anticipated decrease in solar PV pricing. In years where the payment decreases there is an offsetting increase in the number of kW's to be accepted in the Program for the small and large non-residential sectors.

The Office supports the design set forth for incentive payments. The proposed incentive plan should maintain cost effectiveness of the Program and allow for greater participation in keeping with a main goal of the Program – increasing kW's produced by solar power.

Cost Recovery

All Program costs incurred by the Company are proposed to be recovered through Schedule 195 assigned to customer classes on an equal percentage basis. Although the Program will be operated as a balancing account to avoid under or over collection of revenue, charges associated with the Program will not be displayed as a line item on customers' bills.

The Office was a proponent of not presenting the cost of this Program as a separate line item and supports inclusion of Program costs in energy charges on customers' bills.²

Special Contracts

Schedule 195 indicates that the collection of costs related to the Solar Incentive Plan from Special Contract Customers shall be governed by the terms of the contract.³ Exhibit F which shows the estimated effect of the proposed solar incentive surcharge on revenue to customers in Utah includes Contract 3 in the allocation of costs. According to the Company's response to OCS data request 1.3 no other special contract customer is subject to the surcharge at this time.

The Office recommends that in its order in this docket the Commission state that special contract customers are subject to Schedule 195. We further recommend that in future special contracts and contract amendments the Company be required to include

² The Office does not believe it is appropriate to call out solar costs when other resources such as coal and gas plants are not distinguished separately on customer bills.

³ Schedule 107 is applicable to Special Contract Customers whose bills are subject to Schedule 195 the Solar Incentive Program Surcharge.

language that will make those customers subject to Schedule 195. We have recently seen cases in which a circular argument appears to be in use by having language in the tariff docket indicating that special contracts are subject to the tariff to the extent detailed in the contract but at the same time having contract language that indicates the tariff applies only if specifically ordered in the tariff docket. The Commission can pre-empt this situation by clearly indicating that special contracts are subject to this tariff and ordering that future contracts specifically include that requirement.

Term of Program

The Program is proposed to be effective beginning October 12, 2012⁴ to coincide with the effective date of new rates from the Company's general rate case, Docket No. 11-035-200. This will facilitate the inclusion of Program costs with a general rate increase, if both are approved by the Commission. The Program runs through 2017 as permitted by sector caps. However, due to the five-year performance-based incentive payments for the large non-residential sector the Company will continue to make payments and recover its costs through Schedule 195 through approximately 2021.

Demand Side Management and Energy Efficiency Participation Requirements

Residential and small commercial customers that are eligible for the Cool Keeper program are required to participate in that program in order to be eligible for the Solar Incentive Program.

This requirement was included in the Office's straw-man proposal and is a reasonable requirement for participants who will receive ratepayer funding for their projects.

The Office has previously taken the position that Program participants should be required to implement cost effective DSM measures prior to qualifying for a solar incentive. In our straw-man proposal we suggested that not only should participants be required to enroll in the Cool Keeper program but they should also be required to have an energy efficiency audit performed and install cost effective measures prior to qualifying for the solar incentive. Requiring such measures ensures that ratepayers' dollars are better spent as it minimizes the extent to which the resources receiving incentives are serving inefficient loads. However, the current market for energy audits does not appear to be well enough developed to support such a requirement at this time. The Office suggests that this is an area that should be monitored and if it becomes more feasible to require implementation of DSM or energy efficiency measures those requirements should become part of this Program or subsequent or similar programs.

Renewable Energy Certificates (RECs)

In the Office's straw-man proposal we suggested that RECs should be assigned to the utility for the benefit of ratepayers who are funding this Program. The Program contains a formula for assigning a portion of RECs to the utility. The Office supports this proportional split of RECs as a fair way of recognizing the contributions of both ratepayers and system owners.

⁴ This is the date new rates go into effect from RMP's general rate case.

Company Reporting

The Company will file an annual report for each program year by June 1 of the following year. In its Application the Company notes that it may propose adjustments to Program parameters. The Office recommends that the Commission clarify that parties may also suggest modifications to the Program at the time of the annual review but any change will require Commission approval.

One Future Concern

Although the Office is supportive of the Program as filed, we do have some concerns going forward. Based on group discussions it is clear that there is not agreement as to the level of benefit provided from a solar PV system as an offset to the costs that every customer imposes on the system.⁵ The Office contends that even though the Program is cost effective from a resource standpoint, residential participants do not pay their full cost of service⁶. Program participants also rely on the transmission and distribution system, have access to customer service and receive bills from the Company. The Company is also required to provide energy as needed at times when the PV system is not generating, either due to lack of sunlight or malfunction. All of these services provided by the Company come at a cost.

At this time the Office does not have a proposal as to the apportionment of costs to these customers other than through the current customer charge or minimum bill. However we are concerned that at some point in the future it may become necessary to determine if additional mechanisms for assigning costs need to be examined, especially given that some parties oppose the use of a minimum bill. Thus, the Office asserts that it is important that at the time of purchase customers understand that rates and rate structures are subject to change. Clear understanding will help to minimize future objections related to these changes.

Conclusion

The Office supports the Solar Incentive Program as outlined in the Company's Application and tariff sheets. Through this memo we have provided several recommendations that we assert should become part of the Commission's order in this docket. We have also expressed some concerns about future issues that may arise in this or a similar program. It is our intent to continue to monitor the Program and address concerns at appropriate opportunities.

Recommendations

The Office recommends that the Commission:

- 1) approve the Company's Application;

⁵ The Office does not suggest that the cost/benefit analysis is incorrect but rather as the participation level increases it becomes more important to recognize that all customers require an adequate level of service and solar PV customers still rely on Company resources for which they must share in the costs.

⁶ This is less of a concern for commercial and industrial participants as those rate schedules include both an energy and demand charge.

- 2) in its order address the issue of special contracts as discussed above by including language that states special contract customers are subject to Schedule 195 and ordering the Company to include language in future special contracts and amendments that includes Schedule 195 payments; and
- 3) require that Company solar incentive contracts or agreements clearly state that customer rates and rate structures are subject to change.