

4.07.000-P METHODOLOGY FOR EVALUATING ABOVE-MARKET COSTS OF RENEWABLE RESOURCE PROJECTS

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	April 3, 2002	Approved (R95)	April 2005
Board Decision	May 25, 2006	Revised (R390)	May 2009

Procedures for Evaluating the Above-Market Cost of a Renewable Resource Project

WHEREAS:

1. Oregon law limits Energy Trust funding for renewable energy projects to the portion of costs that are higher than the market rate for electricity. Energy Trust's actual payment may not exceed these "above-market" costs.
2. In 2002, the board adopted an interim above-market cost methodology calling for Energy Trust to evaluate the difference between the levelized present-value cost of the proposed renewable resource and an undifferentiated resource, and to pay up to that difference.
3. Over the last year, Energy Trust has evaluated the application of the interim methodology to a variety of projects, identified issues associated with the methodology, and discussed potential changes with the Oregon Public Utility Commission staff, utilities, the Renewable Resources Advisory Council and others.
4. The evaluation indicated that the interim methodology has worked reasonably well, but that Energy Trust's evaluation methods and procedures should be more explicitly detailed.

It is therefore RESOLVED:

1. The Energy Trust board hereby revokes its interim Methodology for Evaluating the Above-Market Cost of a Renewable Resource Project; and
2. Adopts the Procedures for Evaluating the Above-Market Cost of a Renewable Energy Project, attached to this resolution.

Adopted by the Energy Trust of Oregon, Inc., Board of Directors on May 25, 2006.

Energy Trust of Oregon Policy: Procedures for Evaluating the Above-Market Cost of a Renewable Resource Project

Utility-scale Renewable Resources

The utility-scale renewable resources are identified in competitive requests for proposals and other processes. The Energy Trust will work with the utilities in the design of the RFPs and the RFPs will describe the Energy Trust's above-market payment program.

- 1. Review project proposals:** Proposals must provide the technical, resource, financial and project information and operating characteristics typical for responses to a utility-scale RFP. The Energy Trust will independently review this information. As applicable, the Energy Trust will work with the utility to seek agreement on the analytical methodologies and the assumptions about the costs, discount rates, and other key factors that affect the analyses. Staff will ensure that assumptions and methodologies align with approaches approved for utility integrated planning and OPUC rulings and will document this as part of any approval process. The Energy Trust will also work with the utility in their RFP processes as mutually agreed to review projects for above-market funding.
- 2. Independent review:** The Energy Trust will independently evaluate the projects. This review will evaluate whether the proposed costs are consistent with the usual and customary costs for similar projects, the economic and technical feasibility of the projects, and credit and other financial factors. Detailed analyses will be prepared of the net present value of the power that would be generated over the life of the project. As appropriate, the evaluation will include integration, delivery, ancillary, shaping and transmission costs, and any other relevant costs or credits. The staff will compare these costs to the utilities' market cost of electricity and calculate the net-present value of the above-market payment. For bids that do not include integration or transmission, the Energy Trust will evaluate the lowest-cost alternatives available for providing these services.
- 3. Definition of market cost:** Based on the Oregon Administrative Rules (OAR) definition of above-market cost, the Energy Trust will compare the renewable resource costs to the market value that is used by the utility to acquire non-renewable resources, provided the market value was developed using methods consistent with the utility's latest Integrated Resource Plan and the Commission-approved acquisition process. The market value will typically be an updated forward price curve or marginal non-renewable resource selected through a competitive bidding process. The market cost will be adjusted to match the expected daily and seasonal delivery schedule of the renewable resource if necessary.
- 4. Calculate the above-market cost:** The defined market costs will be compared to the delivered price for the renewable resource for each year of operation. The difference between the two will define the above- or below-market cost for that year. The net-present value for these costs over the life of the project (or the contract term in the case of a Power Purchase Agreement) will be calculated using the appropriate utility's discount rate. If the net present value is positive, then this amount would define the maximum above-market cost that the Energy Trust could pay. If the net present value is zero or less, then there would be no above-market cost payments.
- 5. Payment:** The Energy Trust can pay up to 100% of the above-market cost. The actual amount of the payment is determined on a case-by-case basis after considering the amount of funding available, the funding needed to develop the project, the benefits of the project, and the potential of the project to reduce renewable resource costs, provide replicable benefits, address a resource with

significant potential, or meet other considerations related to achieving the objectives of the Energy Trust Strategic Plan. If the above-market payments are made to a developer, the Energy Trust will provide information to the utility so that the forecasted utility payments to the developer do not exceed the net present value of the market cost of the power over the expected life of the project. The Energy Trust will also provide this information to the Commission. Payments may be made up-front or on a periodic basis over time based on production or other factors. Payments made over time may reflect the discounted time-value of those funds.

Mid to Small-Scale Renewable Resources

The Energy Trust will evaluate medium and small-scale renewable resource projects that are submitted under the Energy Trust programs.

- 1. Review Project Proposals:** The Energy Trust will review the costs submitted by project sponsors. Whether through standard processes or RFPs, proposals must provide sufficient information to evaluate the project, including at least technical specifications, resource characteristics, energy delivery, integration, transmission, development timelines, operating plans, financial detail, tax benefits, risks, and personnel. The Energy Trust will evaluate the responses and compare these to the usual and customary costs and specifications for similar resources. For complex projects, independent consultants may be used to help with this review and due diligence. Information requirements will vary by program.
- 2. Definition of Market Cost:** Based on the OAR definition of above-market cost, the Energy Trust will compare the renewable resource costs to the market value that is used by the utility to acquire non-renewable resources, provided the market value was developed using methods consistent with the utility's latest Integrated Resource Plan and the Commission-approved acquisition process. The market value will typically be an updated forward price curve, QF tariff, Commission-approved avoided cost filings, or marginal non-renewable resource selected through a competitive bidding process. The market price will be adjusted to match the expected daily and seasonal delivery schedule of the renewable resource if necessary.
- 3. Calculate the above-market cost:** The defined market costs will be compared to the delivered price for the renewable resource for each year of operation. The difference between the two will define the above or below market cost for that year. The net-present value for these costs over the life of the project (or the contract term in the case of a Power Purchase Agreement) will be calculated using industry-standards to determine the maximum above-market payment, if any, from the Energy Trust. The Energy Trust staff will document these assumptions as part of the review and the Energy Trust's approval processes, which will include a review of what was used in the developers bid compared to what is standard in the industry for rates of return and competitive cost of capital. If the net present value is positive, then this amount would define the maximum above-market cost that the Energy Trust could pay. If the net present value is zero or less, then there would be no above-market cost payments.
- 4. Payment:** The Energy Trust can pay up to 100% of the above-market cost. The actual amount of the payment is determined on a case-by-case basis after considering the amount of funding available, the funding needed to develop the project, the benefits of the project, and the potential of the project to reduce renewable resource costs, provide replicable benefits, address a resource with significant potential, or meet other considerations related to achieving the objectives of the Energy Trust Strategic Plan. Payments to applicants for projects generating for own-use may be capped at the calculated net present value when comparing the cost of the project to the proposer's retail

rate, if this results in a lower above-market funding from the Energy Trust than provided in step 3 above. Payments may be made up-front or on a periodic basis over time based on production or other factors. Payments made over time may reflect the discounted time-value of those funds.

Standard-Offer Resources

The Energy Trust will have some programs that require a standard offer for all projects of a similar type. Standard offers can be necessary for market development to signal consistency for long range planning and investment, or because projects tend to have uniform costs. In such instances re-calculating the incentive for each project would be a barrier to the market development and unnecessary.

For programs that have been authorized by the board to offer a standard incentive, staff will follow the procedures outlined for mid to small-scale projects. The calculation will be based on the latest available data on average costs for projects in Oregon. This calculation will be updated at least once per year with incentives adjusted, if necessary.

Other Considerations

- 1. Implementation of the Above-Market Methodology:** The procedures and analyses will determine the above-market cost based on the best information available at the time of the decision; the payment will be fixed based on this information and will not be adjusted for future changes. The Energy Trust will work with the utility and others to include the most current information in the calculation of the above-market costs.
- 2. Energy Trust Payments:** The payment can be made to the developer, investors, lenders, utility or other parties. The Energy Trust may make a one-time payment, establish escrow accounts, or structure other arrangements.
- 3. Modifications to the Procedures:** If the Energy Trust staff determines that these procedures hinder project acquisitions or that it could be in the ratepayers' interest to modify the procedure for evaluating above-market costs, the staff may request that the board make an exception to the procedures. Prior to doing this, Energy Trust staff will consult with the utilities, the Commission staff and, within the constraints of confidentiality and timing, also with the Renewable Advisory Council. The rationale for any case-specific modifications would be documented as part of the evaluation process for board approval.