Briefing Paper
Staff Recommendation for a Long-Term Renewable Energy Operating Principle

November 17, 2010

Summary

By 2012, it is unlikely that the Renewable Energy programs as currently structured will be able to meet our current minimum generation goal and continue to meet our four main strategy objectives in a market with higher above market costs. To continue to be highly effective, we need to redefine and reprioritize our objectives for 2012 such that we can restructure our programs to make the best use of available funding.

As a first step in this process, Energy Trust staff engaged the Renewable Advisory Council in a discussion last month. We solicited feedback on which operating principle out of a selection of four they preferred to set as our highest priority. Member feedback helped shape our recommendation; which is to hold early stage project and market development assistance for a wide range of small scale renewable technologies as our main priority.

In this paper we first address why the other principles are not considered highest priority for us and then expand on what the recommended option looks like in more detail including how we plan to implement a transition towards this approach.

Background

At the October RAC meeting, we presented four long term operating scenarios, each depicting a portfolio design based on meeting one of four overarching principles; 1) maximizing generation, 2) focusing on early development, 3) reducing technologies supported by ETO from five to two, and 4) supporting only onsite generation projects.

Each scenario received strong recognition from at least one RAC member.

Scenario	Votes
1 - Maximize Generation	1
2- Early project and market development focus	4
3- Fewer technologies	2
4- Onsite only	1
NC - Ongoing discussion, flexibility	1
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Much of the conversation focused on the balance between short and long term objectives, limiting technologies vs. staying open to all, aligning with legislative strategies, ever changing market conditions, and ultimately how to be most effective with annual revenues of $14M.

Our Recommendation

Energy Trust staff see our greatest strength and our unique market niche in providing early project and market development assistance and helping to bring distributed generation projects to completion. This early stage assistance has made it possible for projects to move past the early decision points to where they are ready for construction and need project incentives from us, resulting in new generation resources. Our work in market development assistance has identified viable projects that are now moving through the next phase of design and construction. It's in this primary role where we see our contribution as highly valuable to the small scale renewable energy market in Oregon, addressing both long term and short term values across technologies.

We first address why the other principles are not considered highest priority for us and then expand on what the recommended option looks like in more detail and propose how we plan to implement a transition towards this approach.

Maximizing generation as the sole goal emphasizes the need to get as much generation installed as possible within the projected budget. Following this principle, we'd shift funding to support projects with the least $/kWh needed to complete. In theory, the value to ratepayers would be higher under this scheme than any other. However, when used as an overall funding allocation scheme, implementation is risky and if used exclusively will lead to a limited set of technologies and project types. It cuts out markets that have shown progress but still need our help the most. It's these markets that see very limited support from other organizations but where we can step in and be effective.

- Results in a short term acquisition role of supporting projects that are nearly ready to go and have the least above market cost for their output. Our role would be less about developing a pipeline for future years and more about helping well established projects to the finish line.

- Cuts out supporting higher cost technology markets that need help the most and will take longer to get to a mature stage without assistance. Narrows the portfolio to short term prospects.

- Following this principle, there would be years of no generation followed by years of high aMW due to the lumpy unpredictable nature of project construction. This is a risky approach when year to year carry over is a concern and would require patience which is counter to the concept of getting the money back out the door to be useful now.

- Discourages solar, small wind and small hydro project assistance, all of which are available in PGE territory. It would be challenging to find only biomass and medium wind and hydro projects to meet goals for PGE.

- We see our role in doing what the utilities are not focused to do, fostering small scale development so that one day these types of projects will be much lower cost options for ratepayers across a broader array of resource choices. Energy Trust used to support above market costs for utility scale wind. Now that those costs have come down significantly and the utilities are the developers, public purpose funding is no longer needed in that market. Where it's still needed is in the less mature markets that need support to strengthen their business case. In the scheme of statewide renewable generation development, the utilities will meet their RPS requirements with low cost large scale projects.

We do see value in maximizing generation when competing similar technology projects for incentive funding, such as within an RFP selection process. Maximizing generation would become a second tier priority as it makes most sense in the larger portfolio of projects.

Reducing the number of technologies we support to roughly two compared to five today is another option we prefer not to follow. Although with limited funds this principle would allow us to be most vertically efficient in a few markets, we'd be picking winners. While doing so we'd have to shut down work we've built up over the years in other technologies. If we aren't successful in our selections, we'd need to go back to technologies we had moved away from which would be difficult to do without sacrificing credibility and time. We may naturally do more work in a range of technologies within Pacific Power territory but won't close down programs to PGE customers or vice versa. We'd like to be open for everyone.

Onsite generation only would limit our work to contributors to the public purpose charge (PPC) only; we would no longer work with 3rd party developers and QFs exporting all their power to the utilities. Our efficiency programs only provide support to PPC contributors but the market for efficiency projects is much different. 3rd party developers have been most effective in some markets where the resource owner is not necessarily interested in owning and operating a power generation system. Generating power can be a complex responsibility, especially if your business is raising cows, not optimizing the energy content of a digester and negotiating power sales and interconnection contracts with the utilities. We appreciate the concept of working with more direct contributors and combining RE with EE onsite more fully but limiting the potential small scale projects to onsite only eliminates too many valuable options and opportunities.

We recommend pursing early stage project and market development to bring on targeted generation resources as our main focus for the following reasons.

- No one else is able to assist projects and markets in general at this stage of development.
- There is a gap in the market for resource identification and broader market development assistance.
- With the scale of funding we have available, we feel we can accomplish significant impact in this area across technologies and still have some funds for standard solar and small incentives plus an annual round of RFPs for custom projects and/or support demonstration projects for installed generation.
- Supporting a range of technologies in the early stages is giving each a chance to gain momentum, and Oregon is lucky enough to have a wide range of renewable resource to develop.
- Although we may not be there at the finish line with a project incentive for all projects we work with due to limited funds and high above market costs, we'll bring better projects to the market for others to support.

Recommended Portfolio Description

Focusing on early stage market and project development is a subtle yet meaningful shift for the renewable programs. By subtle, it's a continuation of steadily building services we've offered through the years after seeing success. However, setting this focus as the first operational priority is a meaningful shift from trying to focus on five objectives at once. The other objectives don't disappear; they just take subsequent ranking in priorities. The program portfolio would have the following characteristics.

- We'll continue to support all technologies; although some will receive more time and attention than others based on our assessment of how much of an impact we can ultimately have on the market.

- A portion of the budget will be allocated to standard incentives for solar but at a lesser amount than in 2011.

- A greater percentage of program funds will shift toward development support and cross cutting efforts to lessen development barriers most distributed resources face. Examples include targeted market resource assessments such as brown grease potential in a specific region, offering more than the current cap of $40k per project for development assistance, expanding to interconnection study cost sharing, pooling all available other resources for the project owner, etc.

- This shift leaves a smaller percentage and total amount of funds available for project incentives but effectively helps create better projects able to find other resources to get to the next phase of construction.

- There will still be significant funds (~$3-$4M/yr) to support custom project incentives for installed generation. New tools for project above market cost/capital cost support will be developed to complement the early stage development work. These tools may include 1) expansion of teaming opportunities with other similar organizations to bring additional funding resources to the projects, 2) creation of a targeted RFP process, 3) creation of a revolving loan fund for construction and/or take out financing.

- To support this portfolio, we may need to reconfigure how the renewable programs are staffed to optimize our effectiveness in delivery.

Implementation Next Steps

- Depending on how the market responds over the next six months, re-examine and re-set the achievable goals for 2012 and beyond. This will be clear as the 2011 Oregon Legislative session completes in late spring. Checking in with the OPUC on their interest in redefining our main operating principle and the goal will be the first step at that time.

- If the OPUC responds favorably to the concept and is willing to reset goals when the time comes, our recommendation for 2012 can go to the board as a revision to the 2012 Budget and Action Plan.

- In 2011
    - Work through transition plans for each technology; what services to ramp up, what market studies to undertake, which cross cutting issues can we most easily impact and if possible start to transition.
    - Enter into conversations with a range of other organizations with similar goals of outcome (installed small renewable generation) and map out teaming opportunities.
    - Examine whether the shift in focus will require some internal reorganization of programs and staff.
    - Address how to offer standard incentives while managing custom incentives as a whole to competitively select among proposals and maximize generation within these constraints.