RAC Briefing Paper
Consideration of Off System Qualifying Facilities

September 14, 2011

Introduction

At the August 10th RAC meeting, Energy Trust staff sought feedback and approval for a proposal to provide up to $1M in project incentive funding for an irrigation district hydro project. Because the proposed incentive exceeded $500,000, Energy Trust Board approval was needed for this project before staff could commit funds. The board looks to the RAC for recommendations when making decisions to authorize project funds. The board met one week later on August 17th and approved a funding commitment for this project but did so after spending time discussing a concern raised by Pacific Power.

The concern expressed by Pacific Power was that its customers would not receive a net benefit from Energy Trust providing funding to the project because the project was not located within its service or transmission control area and would need to incur wheeling charges to move the project output to its system. In an 8/15/11 letter to Energy Trust, Pacific Power explained further that their "…concerns first and foremost lie with providing Energy Trust incentives for a project located neither within the company's service territory nor within our transmission system." As an off-system QF, Pacific Power did not feel that ratepayer funding from the public purpose charge should be used to cover this wheeling charge.

Although the board did approve funding for this project, staff has decided to discuss the issue with the RAC to determine if Pacific Power's concern is a minority point of view or whether it is shared by others, potentially suggesting a change in program eligibility. Because Energy Trust program goals are designed with benefit to ratepayers in mind, Pacific Power's belief that off-system QFs do not create a net benefit must be examined in light of Energy Trust's charge and the state's broad support for QFs. After RAC discussion, the issue will also be reviewed by the Board Policy Committee. The issue is important in the short term because staff members expect to review and bring to the RAC proposals for 3-4 off-system QFs in the next six months. These projects meet our project eligibility criteria and will help meet our sector wide goals. Staff would like the RAC to consider two questions:

1- Should we continue to consider off-system QF projects eligible for Energy Trust funding?

2- If so, are there specific conditions under which this funding is available or can they be considered equally eligible for funding as in-system QFs?

Background

Setting Eligibility Criteria

When Energy Trust's efficiency and renewable programs were first created, among the list of questions to be decided was "Who will be eligible to receive Energy Trust funds?" SB1149 clearly designated renewable funding to be used for the above market cost of new renewable resources but didn't specify location or ownership criteria. In SB838 the direction to Energy Trust was to support projects <20MW without specifying location. Neither did the OPUC in its

recommendations for design of the organization (see attached appendix). In other words, there is no legislated requirement that renewable funding can only be distributed to those who contribute to the fund or to projects physically located within the utility service or transmission territories.

In 2002, the RAC and Board had to set some basic project criteria and choose between requiring projects to be 1) located within PGE or PacifiCorp service area, 2) within Oregon, or 3) within the greater Pacific NW. What resulted was a determination that projects only need to deliver power to PGE or PacifiCorp. The benefit to Oregonians was seen in delivering renewable power to customers, supporting state policy for clean energy, reducing environmental impacts of conventional power sources and in developing the renewable markets. In the intervening years, three utility scale wind projects funded by Energy Trust have had to wheel power into PGE or Pacific Power territory and one of the three was in Washington State. The costs to transport power were included in the above market cost assessment for each of the projects.

Several other QF projects that would be out of service territory were approved for project incentives but for various reasons did not get funded by Energy Trust. In light of the latest concern, we would like to revisit the policy behind the criteria decision and make sure RAC and board members are informed and in agreement with either continuing this practice or modifying it.

Qualifying Facilities

The Public Utility Regulatory Policies Act of 1978 (PURPA) was enacted in response to the energy crisis to encourage alternative sources of power without those facilities being subject to all existing federal and state utility regulations. Section 210 of PURPA requires a public utility to purchase power produced by qualifying facilities (QFs) at the utility's avoided cost: the incremental cost a utility would have to pay if the utility generated the electricity. To be considered a QF, a small power producer (<80MW) must meet certain FERC rules on fuel use, size, efficiency, and reliability.

Under a 2005 OPUC Order, 05-584, both PGE and Pacific Power follow OPUC set methods to determine the avoided cost rates they will make available as a standard offer to all QFs <10MW seeking a power purchase agreement with a standard contract. Consumer-owned utilities (COUs) in Oregon are governed by the federal and state PURPA laws but are not bound to Order 05-584. COUs must purchase power from QFs at their current avoided cost, but this is typically the current Bonneville Power Administration (BPA) rate, which is much lower than the currently filed avoided costs for IOUs. Both parties can agree to have the project wheel to another utility for purchase.

Off-system QFs are projects which are located where they can't interconnect directly to Pacific Power or PGE control area and would need to acquire transmission services to move (wheel) the output from the location of generation, across the interconnecting utility system, and to a point of interconnection with Pacific Power or PGE networks. Once there, the energy is purchased by Pacific Power or PGE through the same standard avoided cost contracts available to in-system QFs. Rates to move power are charged on a per kW/month basis, are set through a cost based ratemaking system and are offered on a non-negotiated basis to all parties requesting service. Costs range from $1.10/kW month for BPA transmission system wheeling to $2.025/kW month for PacifiCorp system charges to $5.05/kW month for Central Electric Co-op distribution level wheeling.

Questions

1- Should we continue to consider off-system QF projects eligible for Energy Trust funding?

Impact to program goals:

- Energy Trust programs are working to develop small scale renewable markets in Oregon which cross multiple utility service territory lines. Limiting our target areas only to PGE and PacifiCorp service territories geographically will limit opportunities and make our approach more fragmented and less effective. It is already extremely challenging to move non-solar projects through the development cycle; limiting geography would add another constraint to our outreach and collaboration opportunities.

- Over the next six months, there are 3-4 off-system QF projects hinging upon our project incentive offer ($2.5-$3.5M.) If we choose to no longer fund these projects, we'll walk away from 3 biopower and one community wind project, all of which would be complete in 2012 and help us meet our generation and market development goals.

- Mis-coordination with OPUC rules and less support for <20MW mandate in SB838.

Impact to ratepayers:

- All projects Energy Trust supports must deliver all the energy and all or a portion of the RECs to either IOU. Ratepayers are receiving the energy at the same standard avoided rate as an in-system QF. The project RECs are contributing to utility RPS requirements, decreasing the number of RECs needed to be purchased by utilities to meet requirements.

- The costs these projects need to incur to move their power into IOU territory can be significant (10-15%) but that doesn't necessarily mean that the projects are more expensive overall on a $/kWh basis than in-system projects. A similar project in-system could need to pay much more for significant distribution system upgrades just to interconnect depending on their location. For example, the Juniper Ridge irrigation district hydro project in Pacific Power territory incurred interconnection costs equal to 15% project costs. When benchmarked against each other, their above market cost per kWh and Energy Trust incentive per kWh is what impacts ratepayers.

- Off system QFs by their nature are not physically located within the same service areas as ratepayers and may or may not deliver the same local economic benefits as in-system QFs.

2- If so, are there specific conditions under which this funding is available or can they be considered equally eligible for funding as In System QFs?

Options**:**

- No specific considerations need to be added; continue with existing practice
- An in-system QF preference should be followed. When projects are competing for limited funds, all other aspects being equal, the in-system project should have priority.

- Any project costs associated with wheeling the project output to the IOU territory incremental to the wheeling rates of the IOUs should not be included in the assessment of the project's above market cost.

Our Recommendation

Energy Trust staff recommend continuing our current practice of considering off-system QF projects eligible for Energy Trust funding without change for the following reasons:

- This practice is bringing net benefit to IOU ratepayers through delivery of energy and RECs to PGE and Pacific Power.
- Continues to coordinate with broader state policy to support QFs and support <20MW projects in SB838.
- Any change in policy will significantly impact achieving goals. Over 4aMW of potential projects in the pipeline are off system QFs.
- This practice enables us to build our longer term market development goals by increasing the pool of projects available for funding and will result in more cost-effective, better performing projects.
- By including off system QFs we are leveraging both state and federal incentives available to projects.
- Hydro, geothermal, wind, and to a great extent, biopower projects need to be sited where the resources are. The current policy provides us with the flexibility to utilize these location-specific resources in meeting our goals of providing generation and RECs to ratepayers.
- Singling out wheeling costs is not the right metric for making project viability comparisons and is not consistent with how we fund other costs that are location specific such as interconnection.
- Changing existing practice would be inconsistent with how we treated utility scale projects.

Appendix: Guidelines for the Organization

The following is a portion of a White Paper prepared by the Oregon Public Utility Commission staff in 2001 on the creation of a non-profit organization to implement a portion of the public purposes funds.

"The convening committee proposes that the following guidelines be used to define how the organization achieves its mission. These and other guidelines will be incorporated into a grant agreement between the organization and the PUC governing how funds from SB 1149/ORS 757.612(3) will be expended.

1. **Program funding will seek to encourage the development of competitive markets for energy efficiency services and renewables as a long-term outcome.**
2. Public purpose funding will be competitively bid except when circumstances warrant an alternative approach.
3. **Funds for new renewable resources will be used to offset all or a portion of their above-market costs.**
4. At least 80 percent of the conservation funds will be spent within the service area of the utility that collected the funds.
5. Individual conservation programs will be designed to be cost-effective and will be independently evaluated on a regular basis. This guideline should not restrict investment in pilot projects, educational programs, demonstrations or the like.
6. A majority of the conservation funds will be spent or committed in the year the funds are received.
7. All classes and geographic areas of funding consumers should benefit from the public purpose expenditures.
8. The organization will work to complement, not compete with, existing programs.
9. The board will be broadly representative of the customers whose investment provides the funding to support the organization.
10. Board members shall have no direct financial conflict of interest with the activities of the organization.
11. The costs of operating the organization will be reasonable and supportive of the organization's efforts toward cost effectiveness, and will balance the lowest possible administrative cost with overall organizational effectiveness.
12. The organization will operate under professional standards of conduct and organizational effectiveness, consistent with the public interest and the mandates of SB 1149.
13. The organization will provide timely and accurate information to the PUC regarding the organization's programs and operations, including accounting for conservation and renewable resource funds separately."