BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFICORP (U901E), an Oregon Company, for approval to implement a solar incentive program.	Application 10-03-002 (Filed March 1, 2010)

RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO PACIFICORP'S SUPPLEMENT TO APPLICATION FOR APPROVAL TO IMPLEMENT A SOLAR INCENTIVE PROGRAM

THOMAS ROBERTS
Senior Utility Engineer for the
Division of Ratepayer Advocates
505 Van Ness Ave.
San Francisco, CA 94102
Telephone: 415.703.5278
Email: tcr@cpuc.ca.gov

DIANA L. LEE
Attorney for the
Division of Ratepayer Advocates
505 Van Ness Ave.
San Francisco, CA 94102
Telephone: 415.703.4342
Fax: 415.703.4432
Email: dil@cpuc.ca.gov

June 25, 2010

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I. INTRODUCTION

Pursuant to the "Assigned Commissioner and Administrative Law Judge Scoping Memo and Ruling,"[1] the Division of Ratepayer Advocates (DRA) submits this response to the "Supplement to Application of PacifiCorp for Approval to Implement a Solar Incentive Program"[2] (PacifiCorp Supplement).

DRA continues to support the PacifiCorp's proposal in concept, but remains concerned about the cost of the program relative to PacifiCorp's pending general rate case increase, and at a time of economic recession. DRA recommends the following:

1. Lower incentive rates
2. A three-year program, with the potential for an extension after a program review in PacifiCorp's next general rate case (GRC)
3. Developing a program for low income customers for consideration during the next GRC

[1] Assigned Commissioner and Administrative Law Judge Scoping Memo and Ruling, issued May 20, 2010.

[2] Supplement to Application of PacifiCorp for Approval to Implement a Solar Incentive Program, filed June 11, 2010.

4. Use existing energy efficiency (EE) and California Solar Initiative (CSI) marketing materials to increase the possibility that the 90% incentive cap will result in EE investment
5. Greater leveraging of existing CSI resources

II. DISCUSSION

A. DRA supports many program changes in the updated application.

In responding to the ALJ's questions in the scoping memo, PacifiCorp's Supplement includes new elements that DRA supports, namely:

- Metering requirements that should provide production data for all photovoltaic (PV) systems in the program
- Including residential new construction in the program
- Increasing the allocation of residential incentives from 20% to 33%
- Lowering the cap on commercial systems from 1 MW to 250 kW
- Capping incentives at 90% of estimated onsite consumption

1. PacifiCorp should use existing EE and CSI marketing materials to increase the possibility that the 90% incentive cap will result in EE investment.

For the 90% cap, PacifiCorp states the reason is to "provide an additional incentive to complete energy efficiency improvements."[3] This cap would certainly limit the customer's capital investment in the solar system, and encourage decreased energy use if the customer wanted to "zero out" its annual net metered bill. However, the cap alone would not ensure that the capital freed up is spent on energy efficiency measures. DRA recommends that marketing material for the PacifiCorp solar program specifically explain that the cap was instituted to encourage investment in energy efficiency as the least cost way to reduce energy bills. As discussed in Section II C 1 below, DRA recommends that PacifiCorp work with the CSI and energy efficiency program administrators and use materials developed for CSI and energy efficiency programs.

[3] PacifiCorp Supplement, p.11.

B. Compared to PacifiCorp's current GRC request, the cost of their PV proposal is too high

PacifiCorp's Supplement proposes funding the $8.48 million of estimated program expenses through surcharges that are expected to collect $1.21 million annually for the proposed seven-year solar incentive program.[4] PacifiCorp currently has a general rate case application pending before the Commission, Application (A).09-11-015, in which PacifiCorp has requested a revenue increase of $8.4 million in the first year. DRA proposed a significantly lower revenue increase of $130,000. The parties filed a proposed settlement seeking Commission approval for an annual revenue increase of $4.1 million.[5] If the Commission approves the proposed GRC settlement, PacifiCorp's customers' rates will increase 4.6%. If the Commission also authorizes PacifiCorp's proposed $8.48 million solar incentive program,[6] the result would be a nearly 30% incremental increase in revenue requirements and rates. The incremental cost of the proposed solar incentive program is significant, and no evidence has been provided to show that PacifiCorp's ratepayers will receive financial benefits commensurate with such a significant rate increase.

In spite of the significant cost of the proposed program, and the lack of data showing that ratepayers will benefit from the program, DRA continues to conceptually support the program as a means to provide equity by allowing PacifiCorp's customers access to solar incentives enjoyed by customers in the majority of the state.[7] However, the cost of the program in addition to PacifiCorp's proposed general rate case increase, and the risks of initiating a program during an economic recession, in an area with high

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[4] The original application dated March 1, 2010 includes tables in Exhibit C that show the calculation of surcharges required to collect $1.16 million per year. The supplement does not include similar calculations to support the $1.21 million annual request and revised surcharges in Exhibit E.

[5] All-Party Joint Motion for Commission Approval and Adoption of Settlement Agreement, filed June 23, 2010 in A.09-11-015, p. 4.

[6] This assumes program costs of $1.21 million annually ($8.48 million for seven years, or $1.21 per year.)

[7] The results of a cost-benefit evaluation of the CSI program should be public soon, and may provide insight regarding the cost-effectiveness of the proposed program from the participant and societal perspectives.

unemployment, signal the need for careful scrutiny of program costs, and prudence in program funding and implementation.[8] With these goals in mind, DRA makes the following recommendations.

C. Recommendations to minimize program costs and ratepayer impacts

1. PacifiCorp should demonstrate greater leveraging of existing CSI resources.

PacifiCorp's Supplement makes numerous comparisons to CSI, but includes few details about proposed integration with the statewide program.[9] DRA recommends that PacifiCorp describe how it will work with the CSI program administrators to leverage and collaborate with the following statewide resources:

- CSI websites (GoSolar, Trigger tracker, Solar Statistics)
- Powerclerk – for both application processing and tracking of systems
- Existing marketing materials developed by statewide CSI and energy efficiency programs
- CSI evaluation contractors

2. The incentives for customers should start lower than proposed, and should decline at a faster rate

PacifiCorp's Supplement continues to request incentives that are significantly higher than those currently offered in CSI, or even originally offered in CSI at the highest step.[10] To justify the higher rate, PacifiCorp's Supplement calculates that the proposed incentives provide a 14-year payback (8.8% - 9.0% IRR) for commercial customers. This

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[8] Based on the most recent "not-prelim[inary]" data as of June 24, 2010, unemployment rates in the PC service territory are 13.7, 16.0, 16.3, and 17.0% in Del Norte, Modoc, Shasta, and Siskiyou counties. Weighting these figures based on population yields an average rate of 16.1%, which is significantly higher than the statewide rate of 12.2% for the same time period.

http://www.labormarketinfo.edd.ca.gov/cgi/databrowsing/localareaproqsselection.asp?menuchoice=localareapro

[9] "To the extent practicable, PacifiCorp will utilize existing marketing and outreach tools developed by the CSI in order to reduce program costs." PacifiCorp Supplement, p.12.

[10] While D.06-01-024 set the first incentive step for CSI at $2.80 per watt, D.06-05-025 found that the 50 MW trigger for step 2 had been met by SGIP solar applications, so incentives under CSI were first offered at $2.50 per watt.

figure is compared to the 17-year payback (6.3% IRR) that would result if a $1.69/watt incentive were offered. PacifiCorp states the "this incentive may be too low to incent customers to make this investment."[11] While DRA understands that program participation and incentive level are closely related, the above statement is not evidence that the proposed higher rate is necessary to produce the desired level of participation. In fact, continued levels of strong participation in CSI, despite sharply declining incentives, support the likelihood that lower incentive levels may be sufficient.[12]

Since incentive costs represent 88.4% of the proposed program budget, minimizing incentives to the lowest level that still results in the desired level of participation is a key cost containment measure. Given the large spread between the proposed incentives and those currently offered in CSI, in combination with the lack of evidence supporting the proposed higher incentive rates, DRA recommends substantially reduced incentives. For the starting incentives in step one, DRA recommends an incentive rate that covers 30% of the project costs after the 30% federal tax credit. As calculated by PacifiCorp, this provides a per watt incentive of $1.69, which DRA recommends rounding up to $1.75[13] While the recently adopted CSI thermal program adopted incentives that were approximately 30% of the installed system cost, without considering the federal tax incentives,[14] DRA believes the lower rate is justified since it is still significantly higher than the $.65 per watt offered in PG&E's adjacent service territory, the residential cap on federal investment tax credits (ITCs) has been removed,[15]

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[11] PacifiCorp Supplement, p.6, emphasis added.

[12] Refer to chart on slide 8 of the January 29, 2010 CSI Public Forum presentation at http://www.cpuc.ca.gov/NR/rdonlyres/2933C4A1-5443-46DB-BF11-99301496863F/0/012910ProgramForumPresentation.pdf

[13] PacifiCorp Supplement, p.6.

[14] D.10-01-022, p.30.

[15] The issue of adjustments to CSI incentives based on changes in federal tax law was raised in an ALJ ruling dated October 31, 2008 in R.08-03-008. The new distributed generation rulemaking states that the Commission may consider "CSI budget and incentive rate adjustments based on solar costs, market conditions, the status of federal and state tax credits." See Order Instituting Rulemaking R.01-05-004 dated May 6, 2010, p.7.

and the rate is higher than CPUC staff proposed for commercial customers in 2006.[16] It should be noted that the initial CSI rate of $2.50 was established in 2006, at a time when silicon and PV module prices were increasing.[17] PV module prices have declined since then.[18]

Using DRA's proposed starting incentive rate of $1.75/watt incentive, PacifiCorp's proposed 7% annual rate of decline would result in the following incentive rates:

Step	Incentive
1	$ 1.75
2	$ 1.63
3	$ 1.51
4	$ 1.41
5	$ 1.31
6	$ 1.22
7	$ 1.13

If these rates were adopted, the final rate at step 7 would be higher than the current CSI residential incentive rates offered by the California Center for Sustainable Energy (CCSE)[19] and PG&E, and much higher than the CSI incentives seven years from now.[20] It would also mean that when the program ends, the local PV industry would have to deal with an immediate loss of a $1.13 incentive, the rate in step seven above. One statutory goal of the CSI program, which DRA supports on a statewide basis, is the creation of a self-sustained solar industry. The CSI declining incentive structure is consistent with this goal since the final steps are low (see footnote 20) and result in minimal disruption when the program ends. To aid in the ultimate phase out of PacifiCorp's program, DRA

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[16] See attachment to April 25, 2006 ALJ ruling in R.06-03-004, p.5. Note that for large commercial customers this represents the equivalent up-front value use to establish the PBI rate.

[17] See summary in D.06-08-028, pp.18-19.

[18] See Solar Module Price Data graph at http://www.solarbuzz.com/ModulePrices.htm. Per conversation with Solar Buzz staff on June 25, 2010, module prices were increasing from approximately May 2004 to December 2005, were stable until January 2009, and have been declining since then.

[19] CCSE administers CSI in SDG&E's service territory.

[20] CCSE and PG&E are currently in step 7, or $.65 per watt while SCE is in step 4, at $1.90, based on the CSI Trigger Tracker as of June 24, 2010. Steps 8-10 of CSI are $.30, $.25, and $.20 per watt respectively.

recommends consideration of a greater incentive reduction per step, such as 25%, which results in the following incentives:

Step	Incentive
1	$ 1.75
2	$ 1.31
3	$ 0.98
4	$ 0.74
5	$ 0.55
6	$ 0.42
7	$ 0.31

3. The Commission should adopt a total budget to $3,784,494 for PacifiCorp's proposed solar incentive program.

Consistent with DRA's recommended incentive levels discussed above, the Commission should adopt a budget of $3,784,494, but authorize funding for the first three years only. DRA's proposed budget is shown below.

DRA Proposed Budget*

A	F	G	H	I	K	N
Step	Total kW	Incentive Rate	Tax Exempt Incentive	Total Incentive	Admin	Total Budget
Program Development					$ 37,650	$ 37,650
1	373	$ 1.75	$ 18,750	$ 671,500	$ 135,000	$ 806,500
2	403	$ 1.31	$ 20,250	$ 549,188	$ 135,000	$ 684,188
3	433	$ 0.98	$ 21,750	$ 447,984	$ 135,000	$ 582,984
4	467	$ 0.74	$ 23,475	$ 368,252	$ 135,000	$ 503,252
5	501	$ 0.55	$ 25,200	$ 302,609	$ 135,000	$ 437,609
6	540	$ 0.42	$ 27,150	$ 251,403	$ 135,000	$ 386,403
7	583	$ 0.31	$ 29,325	$ 210,908	$ 135,000	$ 345,908
Total	3,300	$ 0.87	$ 165,900	$ 2,801,844	$ 982,650	$ 3,784,494

*All forumlas and data from PacifiCorp Exhibit D, except column G incentive rates.

DRA's recommendation for balancing account treatment is discussed in Section II C 6 below.

4. A program for low income customers should be developed for consideration in the next GRC

CARE-eligible (California Alternate Rates for Energy program) customers represent approximately 25% of PacifiCorp' residential customers, and it is difficult for DRA to support a solar program that does not include a simplified way to allow low income customers access to PV systems.[21] However, DRA also appreciates PacifiCorp's concern that the costs of duplicating the statewide Multi-Family Affordable Solar Housing (MASH) and Single-Family Affordable Solar Housing (SASH) programs would be cost-prohibitive.[22] One of the primary benefits of CSI is that it leverages ratepayer subsidies with investment from program participants to fund the total cost of PV systems. In contrast, low-income or CARE-eligible customers typically lack either the disposable income or the ability to secure financing to fund their portion of the investment. The statewide CSI low-income programs use a variety of methods to overcome these obstacles, including working with the landlords of multifamily buildings, providing assistance in securing financing, or offering small fully-subsidized systems. The SASH program also requires the SASH program administrator to take responsibility for the installation.[23]

Implementing any of these methods would likely add substantial scope and cost to the proposed program. It would also take time to implement. For example the SASH and MASH programs were originally adopted 22 and 33 months respectively after CSI was adopted.[24] For these reasons, DRA suggests that PacifiCorp work with Grid Alternatives, the SASH program administrator, to develop a low-income solar program for the

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[21] Based on the original application at page 2, PacifiCorp has approximately 46,500 customers in California. PacifiCorp's 2008 CARE and low-income EE budget application, A.08-07-019 at page 4, estimates they will have 11,250 CARE customers, representing 92% of eligible customers. Therefore PacifiCorp expects approximately 11,968 customers to be eligible for CARE in 2010, or 25% of the 46,500 total customers.

[22] PacifiCorp Supplement, p. 11.

[23] CSI Program Handbook, June 2010 version, p.186.

[24] CSI was adopted in D.06-01-024, SASH in D.07-11-045, and MASH in D.08-10-036.

Commission's consideration during the PV program review in PacifiCorp's GRC, as recommended in Section II C 5 below.

5. DRA recommends that the Commission authorize a seven -year program, but that it limit authorization to collect revenues for three years.

The success of the proposed program depends on sufficient participation, distribution of incentives across customer classes, progress towards a self sustained solar industry, and other factors. One of the more important factors in achieving this success is the incentives levels: where they start, differences between customer classes, and rates of decline. Regardless of the initial incentive structure, assuming the Commission adopts the program, there is a potential need for adjustments. DRA recommends a review of the program in PacifiCorp's next GRC.

Due to the size of the program relative to PacifiCorp' revenue requirement and the proposed GRC rate increase, DRA believes it would be prudent to make funding in 2013 and beyond dependant on the outcome of a program review. This would allow for program adjustments to be made to ensure program success.

6. The Commission should clarify that PacifiCorp's proposed balancing account will be capped at $700,000 annually and that unspent money can be rolled over until the end of the first three years.

PacifiCorp proposes that "[a] balancing account will track collections and expenditures to ensure that program funds are used only to fund the program" and proposes to file compliance tariffs after the Commission approves its proposed program.[25] DRA recommends that the Commission clarify that PacifiCorp's collections in the balancing account will be capped at the approved annual program cost, and that unspent collections can be rolled over annually for the first three years of the program. The disposition of any unspent money can be resolved when the Commission reevaluates the program at the end of the first three years. DRA's proposed annual cap is based on the

[25] PacifiCorp Supplement, p. 14.

anticipated expenses incurred during the first three steps of the program, which are $2.1 million using DRA's proposed incentives. The average of this amount over three years is $703,774. DRA believes that spending in the first year will be substantially less than this due to the time required to finalize, develop, and roll out the PV program in PacifiCorp's service territory, such that annual funding at the average level will not constrain program development.

III. CONCLUSION

The updated application requests $8.48 million for a solar incentive program at a time which PacifiCorp's ratepayers are struggling, and in conjunction with a general rate increase. DRA supports expanding a CSI type program into PacifiCorp's service territory, but seeks to limit ratepayer exposure should program participation be significantly less than projected. DRA recommends that the Commission authorize funding at $700,000 annually for the three-year period of 2011-2013 and that PacifiCorp request extension of funding beyond the three-year period in the next GRC. DRA's recommendations discussed above would balance the goal of establishing a solar program for PacifiCorp's customers and encouraging the development of a self-sustained solar PV program in the northern corners of California, while reducing the costs to ratepayers associated with implementing the program.

Respectfully submitted,

/s/ DIANA L. LEE

DIANA L. LEE

Attorney for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2630
Fax: (415) 703-4432

June 25, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this **day served a copy of "RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO PACIFICORP'S SUPPLEMENT TO APPLICATION FOR APPROVAL TO IMPLEMENT A SOLAR INCENTIVE PROGRAM"** to the official service list in **A.10-03-002** by using the following service:

[**X**] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[   ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **June 25, 2010** at San Francisco, California.

/s/ ROSCELLA V. GONZALEZ
Roscella V. Gonzalez

Service List
A.10-03-002

abb@eslawfirm.com;
arr@cpuc.ca.gov;
cem@newsdata.com;
dil@cpuc.ca.gov;
dlf@cpuc.ca.gov;
dot@cpuc.ca.gov;
erik.anderson@pacificorp.com;
jarmstrong@goodinmacbride.com;
jon.fortune@energycenter.org;
jordan.white@pacificorp.com;
kpp@cpuc.ca.gov;
liddell@energyattorney.com;
mrw@mrwassoc.com;
mts@cpuc.ca.gov;
rafi.hassan@sig.com;
sephra.ninow@energycenter.org;
tcr@cpuc.ca.gov;