

Removing Regulatory Barriers to Distributed Generation

Harvesting Clean Energy Conference
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Oregon PUC objective

- To remove barriers to cost-effective distributed energy resources and foster their further development and use

Oregon PUC activities

- Report identifying regulatory barriers and recommending ways that the Commission can eliminate them
- Investigations underway:
 - PGE's standby rates for supplemental and backup power (UE 158)
 - Qualifying Facilities:
 1. Contract length and price structure (approved avoided costs that vary by year or are levelized over the contract term)
 2. Size of facilities eligible for standard rates
 3. Prices, terms and conditions included in tariffs
 4. Method for calculating avoided costs
 5. Applicability of Oregon PURPA administrative rules
 6. Dispute mediation
- Other proceedings proposed

Steps to selling and delivering power from a project

- Interconnection study, grid upgrades and interconnection agreement
- Sales contract and delivery issues
 - *PURPA contract*, limited to five years for an Oregon investor-owned utility (revenue uncertainty beyond five years is an obstacle to financing)
 - *Long-term (non-PURPA) contract* with the utility through bilateral negotiations (pegged to unknown market prices or provide a letter of credit for difference between purchase rates and forecasted market prices; competitive bidding solicitations occur infrequently)
 - *Day-ahead sales or contract with a marketer* (complex contracting process, assignment of risks and responsibilities, credit issues, transmission rights, complex transmission agreement, scheduling and imbalance charges)
 - *Sales to retail customers* (Need PUC certification as an electricity service supplier if selling to more than one customer, no published rates for moving power over the distribution system, scheduling delivery with the utility, imbalance charges, same transmission issues as above if power has to be wheeled over transmission system)
- Standby service for supplemental and backup power (including station power)

Regulatory barriers

- There are no uniform technical standards, procedures or agreements that allow for quick, inexpensive and simple interconnection with utilities where appropriate.
- Rates for backup power do not properly reflect the actual costs and benefits of distributed generation.
- New facilities cannot get financing with a five-year power purchase agreement from the utility that's renewable at unknown purchase rates and only if the federal "PURPA" law stands — or at purchase rates that do not fully account for avoided capacity costs.
- Customers can't easily sell excess power to the utility or to other customers or marketers.
- Resource planning for energy and capacity needs is done in isolation from distribution and transmission system planning, and it generally does not consider distributed generation as an option for eliminating or deferring some investments.
- Utilities lose sales and margins between rate cases.

Draft recommendations

1. The Commission should set standards for interconnecting small generators.
2. The Commission should consider increasing the size of qualifying facilities eligible for standard purchase rates and a standard power purchase agreement, extending the contract length, and developing a standard method for determining avoided costs.
3. The Commission should investigate standby tariffs for supplemental and backup power to ensure they properly reflect the costs and benefits of distributed generation.
4. The Commission should consider supporting increasing the eligible facility capacity for net metering and adding biomass as a qualifying resource.
5. The Commission should consider requiring the utilities to file tariffs that provide distributed generators nondiscriminatory access to the distribution system for sale of excess power to retail customers or marketers.
6. The Commission should explore how distributed generation can help meet energy, capacity, and distribution and transmission system needs at the lowest cost through its investigation into integrated resource planning (UM 1056).
7. The Commission should consider in UM 1056 or a separate docket whether to adopt performance-based ratemaking or a targeted margin recovery mechanism aimed specifically at reducing utility bias against customer-owned distributed resources.

Proposed timeline

- Investigation into PGE's standby rates is underway. PUC staff will ask PacifiCorp and Idaho Power to submit revisions to their standby tariffs to make them consistent with what we learn in this investigation, and ask the Commission to open investigations into the other utilities' standby rates if needed.
- Investigation into qualifying facilities is underway. There may be an interim decision on contract length and price structure as well as size of facilities eligible for standard rates.
- The Commission's investigation into integrated resource planning (UM 1056) will follow its investigation into resource acquisition policy. Staff proposes to explore in UM 1056 how distributed generation can help meet energy, capacity, and distribution and transmission system needs at the lowest cost.
- Staff will ask the Commission to open an investigation into interconnection standards, tentatively mid-2004.
- Other proceedings will follow.

For more information

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