

## Renewable Energy Advisory Council Agenda

### Virtual meeting via Zoom

Thursday, January 21, 2021 – Please note this meeting is on a Thursday  
9:30 – 11:35 a.m.

**To join the Zoom meeting, you will need to register in advance:**

<https://zoom.us/meeting/register/tJIof--gpz0oHdcgvdGZ1G-Uef42ucyAzaFp>

**After registering, you will receive a confirmation email containing information about joining the meeting.**

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**9:30 Welcome and announcements**

**9:40 Preview of 2021 state legislative session** *(information)*

Energy Trust staff will provide information about energy-related bills that will be monitored during Oregon's 2021 state legislative session. RAC members will also be invited to share information about what they are tracking during the session.

**10:10 Solar incentive priorities for 2021** *(Discussion)*

At the last RAC meeting, RAC members asked for more information about Energy Trust's approach to balancing incentive offers within an expanding portfolio of project types and customers. Staff will present information and seek RAC feedback on priorities.

**10:55 Above-market cost policy review** *(Discussion)*

Most of Energy Trust's board policies are reviewed every three years. The "Methodology for Calculating Above-Market Cost" policy is scheduled for its review this month by the board Policy Committee. Staff will present some proposed changes to the policy and seek RAC feedback. The proposed changes would clarify our goal to equitably and inclusively serve all customers. See attached memo and red-lined policy.

**11:30 Public comment**

**11:35 Adjourn**

You can view this agenda and notes from previous meetings at: [energytrust.org/about/public-meetings](http://energytrust.org/about/public-meetings).  
If you have comments on meeting notes, please email [Alina Lambert](mailto:Alina.Lambert).

**Next RAC meeting:** Wednesday, March 17 at 9:30 a.m.

# Memo



**To:** Renewable Advisory Council  
**From:** Energy Trust renewable energy sector staff  
**Date:** January 21, 2021  
**Re:** Recommended changes to the above-market cost policy

Energy Trust has a variety of board-level policies that are regularly reviewed to determine if changes are needed. The “Methodology for Evaluating Above-Market Costs of Renewable Resource Projects” policy is undergoing its periodic review in early 2021. (The review was scheduled for November 2020, but was moved to early 2021 due to staff time constraints.) Staff recommend a variety of changes that are summarized below and shown in the attached red-line document. These changes will be reviewed by the Renewable Advisory Council on January 21, 2021. Comments from the RAC will be incorporated into a recommendation which will go to the board’s policy committee on January 28 before being voted on by the full board.

Energy Trust’s Above-Market Cost (AMC) policy is one of the foundational policies for the renewable energy sector. It outlines the method used by staff to review project costs and revenues and to determine the maximum incentives that can be offered to projects through custom or standard programs. In this 2021 policy review, staff looked at the policy to determine its alignment with and support for our organizational commitment to equitably and inclusively serve all customers.

Staff determined that the policy provides flexibility to consider individual project costs and circumstances, and set appropriate discount rates used in present value calculations. Both of these are important for calculating appropriate AMC for different customer segments. When considering changes to the policy, staff attempted to maintain this flexibility and avoid “fixing what’s not broken.”

Staff did note, however, that the policy did not explicitly state the goal of serving all customers. It also did imply but was not explicit about the need to examine characteristics of customer groups in addition to characteristics of projects. For example, Energy Trust considers tax credits to be a factor that reduces project costs, but low-income customers cannot be assumed to have the ability to utilize a tax credit. In recommending changes to the policy, staff tried to clarify that distinctions in circumstances between customer groups should be considered in AMC calculations.

In attached redline, RAC members will see several types of changes.

1. Changes that clarify the goal of equitably and inclusively serving all customers. These are reflected in several additions, most notably in an introductory paragraph.
2. Changes that clarify that we are making distinctions between customer groups, as well as project types
3. Housekeeping changes. We removed language that was duplicative, provided unnecessary detail, or was dated.

At the January 21<sup>st</sup> meeting, RAC members will be asked for their comments on the following questions:

- Do changes in the AMC policy support the goals that RAC members see for Energy Trust?
- Are there any changes that seem unnecessary or problematic?
- Are there other changes that the RAC recommends?

## 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
Policy Committee	May 19, 2009	Reviewed, no changes	May 2012
Board Decision	Sept 19, 2012	Amended (R645)	Sept 2015
Board Decision	Sept 30, 2015	Amended (R754)	Sept 2018
Board Decision	November 8, 2017	Amended (R819)	Nov 2020

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

#### Introduction:

Energy Trust of Oregon seeks a future that includes sufficient, stable, and affordable power available to all customers through sustained investment in energy efficiency and renewable resources. Energy Trust dedicates funds to help customers pay the above-market cost of new renewable energy projects. The above-market cost compares the cost of planning, constructing and operating a project to the project's revenues, and considers the unique circumstances of projects and customer types.

#### Methodology:

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

- 1. Review Project Proposals:** Energy Trust will review the project costs, net of tax benefits usable by the customer, government incentives and income streams, 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, and financial details, including tax benefits, ~~risks, and personnel.~~ Energy Trust will evaluate the responses and compare these to the usual and customary net 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, for projects delivering power to the utilities, Energy Trust will compare the renewable resource costs to the market value that is used by the utility to acquire 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 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. In the case of on-site and net metered use, the market cost will be the retail rates for the customer under filed tariffs with the OPUC.
- 3. Calculate the above-market cost:** The ~~defined~~ market costs defined above 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 measure 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.

4. Energy Trust staff will document these assumptions as part of the review and Energy Trust's approval processes, which will include a review of what was used in the developer's bid compared to what is standard in the renewable energy industry for rates of return and competitive cost of capital, for the class of renewable energy project, accounting for differences across customer segments. 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:** 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 and serving all customers. ~~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~~Offers for Renewable Resources:** Energy Trust will have some programs that require ~~a standard offers~~ for all projects or customers of a similar type. Standard offers can be necessary for market development to signal consistency for long range planning and investment, or because similar projects in specific market segments tend to have uniform costs. In such instances re-calculating the incentive for each project would be a barrier to 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 above, basing the~~ calculation ~~will be based~~ on the latest available data on average costs and typical tax benefits, government incentives and income streams for projects for projects different customer types and demographic groups 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 for custom projects will be fixed based on this information and will not be adjusted for future changes. 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.~~

- 3.2. Modifications to the Procedures:** If 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, staff may request that the board make an exception to the procedures. Prior to doing this, Energy Trust staff will consult with the utilities, 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.
- 4.3. Utility master agreements.** Energy Trust has had master agreements with PGE and PacifiCorp for several years. These agreements were negotiated with the above- market cost methodology in mind, and are consistent with this methodology, but have somewhat different procedural requirements. If utilities submit funding requests pursuant to master agreements, those procedural terms will apply.