

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

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

- 1. Review Project Proposals:** The Energy Trust will review the costs, net of tax benefits, 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, financial detail, tax benefits, risks, and personnel. The 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, the 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 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 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.** The Energy Trust staff will document these assumptions as part of the review and the 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 industry for rates of return and competitive cost of capital. 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:** The 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. 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 Resources: The Energy Trust will have some programs that require a standard offer for all projects of a similar type. Standard offers can be necessary for market development to signal consistency for long range planning and investment, or because projects tend to have uniform costs. In such instances re-calculating the incentive for each project would be a barrier to the 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 calculation will be based on the latest available data on average costs for projects 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 will be fixed based on this information and will not be adjusted for future changes. The 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. Modifications to the Procedures:** If the 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, the staff may request that the board make an exception to the procedures. Prior to doing this, Energy Trust staff will consult with the utilities, the 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. 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.