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State of Vermont
Public Utility Commission

December 21, 2018

TO ALL PARTIES IN PUC CASE NO. 18-2820-INV

RE: Investigation to review the avoided costs that serve as prices for the standard-offer program in 2019

Dear Parties:

Pursuant to 30 V.S.A. Section 8 and 3 V.S.A. Section 811, I am enclosing my Proposal for Decision in the above case.

If you have any comments, please file them on or before Wednesday, January 9, 2019. Any comments will then be submitted to the Vermont Public Utility Commission ("Commission") along with the Proposal for Decision for final determination. If you wish, you may request oral argument before the Commission. Any request for oral argument must be filed with the Commission by January 9, 2019.

It should be emphasized that the enclosed Proposal is not a final decision of the Commission and may be subject to modification by the Commission.

Very truly yours,

Mary Jo Krolewski

Mary Jo Krolewski
Hearing Officer

Enclosure

PSB Case No. 18-2820-INV - SERVICE LIST

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STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-2820-INV

Investigation to review the avoided costs that serve as prices for the standard-offer program in 2019	

Order entered:

PROPOSAL FOR DECISION

I. INTRODUCTION

Pursuant to 30 V.S.A. § 8005a(f)(3), the Vermont Public Utility Commission ("Commission") is required on an annual basis to review the avoided costs that serve as prices for the standard-offer program. In this proposal for decision, I recommend the Commission make no changes to the standard-offer prices established in 2018.

The standard-offer prices established in this proposal for decision will serve as price caps in the 2019 request for proposals ("RFP") to fill the available annual capacity under the standard-offer program. In this proposal for decision, I also make some additional recommendations with respect to the implementation of the 2019 RFP.

II. BACKGROUND

Established in 2009, pursuant to 30 V.S.A. § 8005a, the standard-offer program promotes the rapid deployment of small renewable generation. The Commission has implemented the program through previous Orders in Dockets 7523, 7533, 7780, 7873, 7874, and 8817, and Case No. 17-3935-INV.

Under the program, Vermont distribution utilities are required to buy renewable power from an eligible generator at a specified price for a specified period of time. Program costs are distributed among Vermont utilities based on their *pro-rata* share of electric sales. The program is administered by a statewide purchasing agent ("Standard Offer Facilitator") appointed by the Commission.[1]

The standard-offer program was created with a 50 MW initial program capacity that was expanded to 127.5 MW in 2012. Eligible projects can be no larger than 2.2 MW in size and

[1] VEPP Inc. ("VEPP") serves as the Standard Offer Facilitator under contract to the Commission.

include the following technologies: solar; wind with a capacity of 100 kW or smaller ("small wind"); wind with a capacity greater than 100 kW up to 2.2 MW ("large wind"); farm methane; landfill methane; food waste anaerobic digestion; biomass; and hydroelectric. Eligible projects selected through a lottery received a standard-offer contract and the contract price was based on technology-specific avoided costs.

In 2012, statutory changes were made to the program that included an increase in the available program capacity, distributed annually as follows: 5 MW in 2013-2015; 7.5 MW in 2016-2018; and 10 MW available in 2019-2022. A specific portion of each year's capacity is reserved for projects proposed by Vermont utilities and is referred to as the Provider Block, with the remainder referred to as the Developer Block. The 2012 changes also: (a) require allocation of available capacity among different technology categories; (b) allow market-based pricing methodology; and (c) require review of avoided-cost prices every year.

Since 2013, the Commission has issued an annual RFP to fill the available annual capacity under the program. Issued by the Standard Offer Facilitator, the annual RFP specifies annual program capacity, technology allocations, and avoided-cost price caps.[2] Under the RFP, lowest-priced bids are awarded annual capacity. Farm methane projects remain outside the program cap (i.e., no restrictions on the number of projects that can participate in the program) and therefore do not have to participate in the annual RFP.

III. PROCEDURAL HISTORY

In 2017, the Commission established a mechanism for the allocation of available standard-offer program capacity pursuant to Section 8005a(c)(2), and determined the technology-specific avoided costs that served as price caps on the standard-offer projects solicited through the 2017 RFP pursuant to Section 8005a(f)(3).[3] In addition, the Commission determined the avoided costs that served as the prices for farm methane projects under the standard-offer program.[4]

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[2] The Standard Offer Facilitator maintains a website for the program that includes the annual RFP and other information: http://www.vermontstandardoffer.com/.

[3] *Order Re 2017 Technology Allocation and Price Caps for the Standard-Offer Program*, Docket 8817, Order of 3/2/17; *Order Re Motions to Alter or Amend and Motions to Reconsider*, Docket 8817, Order of 3/29/17; *Order Re Second Motions to Alter or Amend*, Docket 8817; Order of 4/2/17.

[4] Pursuant to Section 8005a(g), farm methane projects remain outside the programmatic cap.

On August 2, 2018, as required by Section 8005a(f)(3), the Commission opened this investigation to conduct a review of the avoided costs that serve as prices caps on the standard-offer projects solicited in the 2019 RFP and the avoided costs that will serve as the prices for farm methane projects under the standard-offer program.[5]

In the August 2, 2018, Order, based on its review of the results of the 2018 RFP, the Commission retained the technology allocation used in 2018 for the 2019 RFP.[6] Accordingly, the investigation for the 2019 program was limited to the review of the standard-offer prices.

On August 31, 2018, the Vermont Department of Public Service ("Department") filed recommended price caps.

On September 3, 2018, Green Mountain Power Corporation ("GMP") filed comments.

On September 10, 2018, I conducted a workshop to discuss the avoided costs that serve as prices for standard-offer projects.

On September 24, 2018, the Department filed reply comments.

No other comments have been received.

This proceeding has not used contested-case procedures, and all interested persons have been afforded the opportunity to participate through a workshop and written filings. Because this process was not a formal case, there were no parties and no deadlines for intervention. In this proposal for decision, I use the term "participants" to refer to the individuals and entities who participated in some manner in this process.

IV. DISCUSSION

Standard-Offer Price Caps

As discussed below, I am recommending that the Commission make no changes to the standard-offer price caps established in 2018.

Both the Department and GMP recommend no changes to the avoided costs that serve as price caps on standard-offer projects established by the Commission in 2018.

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[5] *Order Opening Investigation, Establishing Schedule, and Notice of Workshop*, Case 18-2820-INV, Order of 8/2/18.

[6] For the 2018 RFP, the Commission adopted a technology allocation under which the Developer Block included a Price-Competitive Developer Block that was available to projects of any technology category, awarded on bid price. The remainder of the Developer Block capacity was allocated to the Technology Diversity Developer Block which was allocated on an equal basis to non-solar technology categories (except landfill gas), awarded on bid price within each category.

The Department contends that several of the assumptions used to calculate the existing price caps have changes (i.e., inflation rate, tax rate, depreciation expense, and cost of photovoltaic modules), but in offsetting directions. The Department maintains that the existing price caps continue to represent a reasonable estimate of the cost to build, and enable developers working on technologies other than solar continued participation in the standard-offer program.

The Department contends that the existing solar price cap is at a level that encourages developer participation and results in competitively priced bids. The Departments notes that the 2018 RFP yielded seven eligible solar bids for a total of 14.4 MW of capacity. Under the Technology Diversity Developer Block, the Department maintains that the price caps are achieving the primary goals of the program. The Department notes that the 2018 RFP resulted in bidding activity (though limited) at or close to the price caps, suggesting that there is developer interest at the existing price caps.

GMP contends that past RFP results indicate that there has been a competitive market for solar projects and that RFP results have been uniformly under the existing $0.13 per kWh price cap. GMP maintains that the existing solar price cap is higher than prices seen in past RFP, but since there is history of price competition among solar project, it is not necessary to adjust the price cap.

With respect to the price caps for all technologies other than solar, GMP contends that the 2018 RFP results (limited project bids at or near the price caps) suggest that there is limited competition for these technologies, and it is difficult to know whether projects could potentially be developed at prices lower than the current price caps. GMP believes that the avoided cost caps for these technologies exceed the value of the various products that these projects will provide to Vermont electric customers. However, GMP further states that because these projects have not yet completed permitting and construction, and the scale of projects is limited, it seems reasonable to maintain the existing price caps for the 2019 RFP. GMP further maintains that the existing price caps support the program goal of technology diversity and maintain the opportunity for developers working on these technologies to participate in the standard-offer program.

In past standard-offer proceedings, the Commission established standard-offer prices based on assumptions that balance between the statutory directive to ensure sufficient incentive for rapid deployment and the directive to ensure that the incentive is not excessive and thereby unnecessarily costly for ratepayers. This means that projects are efficiently sited and financed so as to avoid excessive costs to electric ratepayers.[7]

No participant has recommended that the Commission change the standard-offer price caps established in 2018. Based on a review of past RFP results and the participants' recommendations, I recommend no changes to the existing standard-offer price caps. The existing price caps should continue to balance the statutory directive to ensure sufficient incentive for rapid deployment against ensuring that the incentive is not excessive and thereby unnecessarily costly for ratepayers.

Accordingly, I recommend that the Commission establish the following avoided costs to serve as price caps for the 2019 RFP:

- Biomass: \$0.125 per kWh (levelized over 20 years)
- Landfill Gas: \$0.090 per kWh (levelized over 15 years)
- Wind > 100 kW: \$0.116 per kWh (fixed for 20 years)
- Wind ≤ 100 kW: \$0.258 per kWh (fixed for 20 years)
- New Hydroelectric: \$0.130 per kWh (fixed for 20 years)
- Food Waste Anaerobic Digestion: \$0.208 (fixed for 20 years)
- Solar: \$0.130 per kWh (fixed for 25 years)

<u>Farm Methane Prices</u>

Farm methane projects remain outside the standard-offer programmatic cap. No party provided comments on the prices for these projects. I recommend that the Commission adopt the 2018 prices for use in 2019. Accordingly, I recommend the Commission establish an avoided cost of \$0.145 per kWh, fixed over the term of the 20-year contract, for large farm methane projects, and an avoided cost of \$0.199 per kWh, fixed over the term of the 20-year contract, for small farm methane projects.

<u>2019 RFP Requirements</u>

In its comments, the Department recommends that the RFP require participants to submit bids that provide full documentation of the cost estimates that informed their specific bid price. The Department's comments include an attached bid sheet comprised of six categories (operating

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[7] See Docket 7533, Order of 1/15/10; Docket 7780, Order of 1/23/12; Docket 7874, Order of 3/7/16; Docket 8817, Order of 3/2/17; Case No. 17-3935-INV, Order of 3/16/18.

characteristic, installation costs, first-year operating costs, replacement costs, decommissioning costs, and revenue streams and cost savings). The Department contends that a bid sheet will increase transparency and ensure that projects do not impose excessive costs on ratepayers.

I recommend that the Commission not adopt any changes to the current RFP mechanism with respect to the methodology for awarding projects based a bid price. As discussed in the March 16, 2018, Order, the Department's proposal to institute a bid sheet appears to add much complexity to the RFP bidding process without a clear demonstration that the proposal would improve the cost-efficiencies of bids and allow for a more competitive RFP process.[8] However, the bid sheet may provide value to bidders in the development of their RFP bids. To that end, I recommend that the Commission direct the Standard Offer Facilitator to make this bid sheet available to RFP participants as part of the release of materials for the 2019 RFP.

Notice of Sheffield-Highgate Export Interface

The Department and GMP recommend, as provided in the 2018 RFP, that the RFP include information regarding the constraints in the Sheffield-Highgate Export Interface ("SHEI") area. In 2013, ISO New England demarcated the SHEI and established generator operation limits to ensure that the transmission system's capacity to function reliably remains intact. During certain operational periods, these limits are reached and generation resources in areas of northern Vermont are required to curtail their output due to the lack of transmission system capacity to export power.[9]

As recommended by the participants and as required in the March 26, 2018, Order, I recommend that the Commission include language in the 2019 RFP on the concerns identified in the SHEI area.[10] Specifically, I recommend the 2019 RFP include the following: (1) a short description of the SHEI area and limitations, including a link to the Vermont System Planning Committee webpage on the SHEI area; (2) an explanation that proposed projects within the SHEI area could adversely impact the operation of other renewable generation in the area; and (3) a notice to bidders that any standard-offer projects proposed in the SHEI area will have to address the economic and transmission system concerns during the certificate of public good process.

[8] Case No. 17-3935-INV, Order of 3/16/18 at 18-19.
[9] More information on SHEI can be found at: https://www.vermontspc.com/grid-planning/shei-info.
[10] Case No. 17-3935-INV, Order of 3/16/18 at 19-21.

RFP Award Group – Refundable Deposit

Although not raised in this proceeding, participants in a related proceeding have made recommendations concerning the refundable deposit fee of $15 per kW paid by recipients of a RFP award. Because the recommendations are likely to enhance the success of the 2019 RFP, I am addressing them in this proposal for decision.

Under the terms of the 2018 RFP, within 30 days of receiving notice of an award in the RFP, the recipient is required to provide a refundable deposit fee of $15 per kW.

The standard-offer contract establishes milestones for projects and conditions for the return for the refundable deposit. The standard-offer contract states that projects are required to file a petition for a certificate of public good within one year of the contract signature date. Solar and small wind projects are required to be commissioned within two years of the contract signature date, and biomass, large wind, landfill gas, and hydroelectric plants are required to be commissioned within three years of that date. If a project is commissioned within the applicable milestone date set forth in its contract, 100% of the refundable deposit will be returned. For all technology categories, if a project voluntarily withdraws from the standard-offer program within the first year, the entire refundable deposit is returned. For small wind and solar projects, the deposit is refunded 50% if the project withdraws within the second year. For other project categories, the deposit is refunded 75% within the second year and 50% within the third year.

During last year's review of the standard-offer program, participants recommended that the $15-per-kW deposit be fully forfeited when a project is withdrawn from the standard-offer program prior to commissioning, except if the petition for a certificate of public good is denied. The Commission declined to make changes to the standard-offer contract with respect to the refundable $15-per-kW deposit. The Commission stated that without a more comprehensive examination of why projects may not be achieving commissioning, this policy change may have some unintended consequences. The Commission further stated that it would continue to monitor the commissioning rate of projects receiving standard-offer contracts and will revisit this issue before the 2019 RFP.[11]

In Case No. 17-5257-INV, the Commission opened a proceeding to review the effectiveness of the standard-offer program.[12] During that review, the Department stated that it

[11] *2018 Programmatic Adjustments to the Standard-Offer Program*, Case No. 17-3935-INV, Order of 3/16/18 at 47.

[12] *See Order Re: Notice of Proceeding*, Case No. 17-52-57-INV, Order 12/29/17.

continues to support the recommendation that the $15-per-kW deposit be fully forfeited when a project is withdrawn from the standard-offer program before commissioning and recommends that the Commission implement these changes for the 2019 RFP.

I recommend that the Commission accept the participant's proposal that the $15 per kW deposit be fully forfeited when a project is withdrawn before commissioning, except if the petition for a certificate of public good is denied. This proposal should increase the likelihood that RFP bids will be based on better planned, fully vetted projects and result in more standard-offer projects achieving commissioning. Further, winning RFP bids with signed standard-offer contracts will occupy capacity in the standard-offer program. This change should help avoid occupation of this capacity by projects not likely to achieve commissioning. To implement this change in deposit requirements, I recommend that the Commission issue a revised standard-offer contract.

RFP Timeline

To meet the 2019 requirements of Section 8005a(c), as discussed in the August 2, 2018, Order, the Commission anticipates that it will direct the Standard Offer Facilitator to issue an RFP to solicit standard-offer projects by April 1, 2019.

I recommend that the Commission direct the Standard Offer Facilitator to issue an RFP shortly after the Commission's determination in this proceeding and that bid proposals be due on May 1, 2019, consistent with past RFP schedules. The goal of this schedule is to provide potential bidders with significant advance notice of the RFP parameters.

V. Conclusion

In this proposal for decision, pursuant to Section 8005a(f)(3), I recommend that the Commission make no changes to the avoided cost prices established in 2018.

In addition, I make some additional recommendations with respect to the implementation of the 2019 RFP. These recommendations include: (1) making a bid sheet available to RFP participants; (2) adding language in the 2019 RFP on concerns identified in the SHEI area; (3) requiring the $15 per kW deposit be fully forfeited when a project is withdrawn before commissioning; and (4) adopting an RFP schedule that requires submittals by May 1, 2019.

I am circulating this proposal for decision to the participants for their review and comment.

Dated at Montpelier, Vermont this 21st day of December, 2018.

Mary Jo Krolewski

Mary Jo Krolewski
Hearing Officer

VI. <u>ORDER</u>

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Utility Commission ("Commission") of the State of Vermont that:

1. The conclusions and recommendations of the Hearing Officer are adopted.

2. Effective for any standard-offer contract executed after March 1, 2019, the standard-offer prices for renewable power under 30 V.S.A. § 8005a(b)(2) shall be determined through a request for proposals issued by the Standard Offer Facilitator and shall be no higher than the avoided costs as specified in this Order.

4. Effective for any standard-offer contract executed after March 1, 2019, pursuant to 30 V.S.A. § 8005a(f)(2), the following avoided costs will serve as the prices for farm methane projects under the standard-offer program: (1) $0.145 per kWh fixed over the 20-year contract for projects with a nameplate capacity greater than 150 kW; and (2) $0.199 per kWh fixed over the 20-year contract for projects with a nameplate capacity less than or equal to 150 kW.

5. The form of the standard-offer contract is revised to reflect that the refundable contract deposit of $15 per kW of installed capacity will be fully forfeited when a project is withdrawn before commissioning, except if the petition for a certificate of public good is denied. This change is reflected in the annotated document attached to this Order.

I am circulating this proposal for decision to the participants for their review and comment.

Dated at Montpelier, Vermont this 21st day of December, 2018.

Mary Jo Krolewski

Mary Jo Krolewski
Hearing Officer

Dated at Montpelier, Vermont this ________ day of __________________, 2018.

______________________________	)	
Anthony Z. Roisman	)	PUBLIC UTILITY
	)	
	)	
______________________________	)	COMMISSION
Margaret Cheney	)	
	)	
	)	OF VERMONT
______________________________	)	
Sarah Hofmann	)	

OFFICE OF THE CLERK

Filed:

Attest: ________________________

Clerk of the Commission

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Commission (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: puc.clerk@vermont.gov)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Commission within thirty days. Appeal will not stay the effect of this Order, absent further order by this Commission or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Commission within 28 days of the date of this decision and Order.

PSB Case No. 18-2820-INV - SERVICE LIST

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