Renewable Northwest Project (RNP) and the NW Energy Coalition (NWEC) appreciate the opportunity to provide supplemental comments for the Washington Utilities and Transportation Commission's (UTC or "Commission") inquiry into distributed generation (DG). After reviewing other parties' opening comments and attending both the UTC DG Workshop on July 25 and the Distributed Energy Legislative Focus Group Workshop on July 27, we believe that the following comments could assist the UTC by further informing and framing the *Study of the Potential for Distributed Energy in Washington State* to be provided to the Legislature. In contrast to our opening comments, which provided responses to the broad list of DG-related topics identified by the UTC, these supplemental comments focus on what we believe to be some of the most important issues to address when considering the expansion of DG resources in Washington State.

I. Current Net-Metering Restrictions Severely Limit DG Potential

The current system size limit of 100kW and 0.25% limit for total net-metered capacity penetration create one of the most restrictive environments for DG in the country.[1] As stated in our opening comments, we believe a 5 MW system size limit for net-metered systems and a 5% penetration level would be appropriate and consistent with the definition of DG in I-937 as a system size of 5 MW or less. Adopting these changes would place Washington among the leaders in state DG policy, rather than at the back of the pack where it currently resides. A concern was raised that increasing the net-metering limitations could lead to customers generating substantially more power than they consume. However, it is important to note that the size of net-metered systems is inherently self-limiting; it would not be rational to oversize a net-metered system when the method of obtaining a return on investment is through avoiding energy costs.

II. The Existing Renewable Energy Incentive Program in Washington is Insufficient to Drive Significant DG Expansion

Both the UTC and Legislative Focus Group discussions made clear that there are many combinations of incentive structures and funding sources that could be used to expand DG in Washington. Perhaps an even more important immediate focus is the declining effectiveness of the Renewable Energy System Cost Recovery Program for incenting new DG projects.. Participants in this production-based incentive program receive payments only until 2020, which reduces the total amount of incentive as we come closer to the sunset date. For example, potential participants will be less interested in signing up for the program in 2015 than in 2012, because

[1] See Interstate Renewable Energy Council (IREC) website page, "State and Utility Net Metering Rules for Distributed Generation," http://irecusa.org/irec-programs/connecting-to-the-grid/net-metering.

they will receive only five years of payments instead of eight. Therefore, in order to continue incenting DG, either the current program will need to be extended or a new program will need to be created.

It is also important to note that, because utility participation in the existing program is voluntary, solar installations are risky because participants cannot be sure that the incentive will be paid.[2] Retaining this program feature may make it impossible to attract third-party ownership business models to the state, because the investment risk would be too great for companies to attract financing partners.

To effectively expand DG in Washington, the current program or any new incentive program should explicitly allow for third-party ownership of systems. Third-party ownership provides a mechanism for overcoming the greatest barrier to solar adoption: its high initial cost. Offering ratepayers a no-upfront cost option for installing solar serves to equalize access to DG solar and increase adoption. The third-party ownership model has proven to be a highly popular and effective method for expanding DG in a number of other states. For example, leases and PPAs for DG solar accounted for 36 percent of all the residential systems installed in Xcel's territory in Colorado in 2010,[3] and the percentage is likely much higher in California. This model is also used extensively in the commercial sphere, especially by non-profit entities such as government buildings, schools and religious entities that are unable to monetize the federal investment tax credit (ITC). When a non-profit's system is owned by a third party, the benefits of the ITC can be passed directly on to them.

In order to attract the third-party ownership model to Washington, rebates provided by the utilities must be assignable to the third party and must be sufficiently consistent and stable for third-party providers to secure financing. Ultimately, allowing for third-party ownership is one of the few no-cost steps that can be taken to expand DG in Washington.

III. FERC Has Ruled that Multiple Avoided Cost Rates Can Be Set to Meet State Requirements

We wish to reiterate that FERC has clarified that, when a state legislature has required utilities to procure a specific type of generation, the state can set a special avoided cost unique to that type of generation. *See Cal. Pub. Util. Comm'n,* Order Denying Reh'g, 134 F.E.R.C. ¶ 61,044 (Jan. 20, 2011). For example, if a state law

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[2] The existing program is structured as a tax credit to utilities in an amount equal to the cost recovery incentive payments to customers (RCW 82.16.130(1); WAC 458-20-273(21)). A utility has the option to choose whether or not to take the tax credit, and therefore the ability to choose whether or not to offer this program to its customers.

[3] Solar Energy Industries Association, *U.S. Solar Market Insight: 2010 Year-in-Review*. page 19.

requires utilities to acquire a certain amount of generation from solar facilities, the state is authorized to set a separate avoided cost rate for solar resources. The ability to set multiple avoided cost rates may prove useful if legislators wish to enact a feed-in-tariff (FIT) for DG resources. Doing so would require legislators to set a specific requirement for utilities to acquire DG resources, such as a certain amount of capacity of solar PV under 5 MW in size or a certain percentage of the utilities' load be met by solar PV under 5 MW in size.

IV. Conclusion

We believe that the above represent some of the most critical issues for improving the state's DG outlook. We look forward to working constructively with other interested parties toward progress on Washington's DG policy.