A REVIEW OF SOLAR PV BENEFIT & COST STUDIES

2nd Edition

eLab
Electricity Innovation Lab
ROCKY MOUNTAIN INSTITUTE

Contacts:
Lena Hansen, Principal, lhansen@rmi.org
Virginia Lacy, Senior Consultant, vlacy@rmi.org
Devi Glick, Analyst, dglick@rmi.org

1820 Folsom Street | Boulder, CO 80302 | RMI.org

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ABOUT THIS DOCUMENT

This report is a 2nd edition released in September 2013. This second edition updates the original with the inclusion of Xcel Energy's May 2013 study, **Costs and Benefits of Distributed Solar Generation on the Public Service Company of Colorado,** ***as well as clarifies select descriptions and charts.***

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OBJECTIVE AND ACKNOWLEDGEMENTS

The objective of this e-Lab discussion document is to assess what is known and unknown about the categorization, methodological best practices, and gaps around the benefits and costs of distributed photovoltaics (DPV), and to begin to establish a clear foundation from which additional work on benefit/cost assessments and pricing structure development can be built.

Building on initial research conducted as part of Rocky Mountain Institute's (RMI) DOE SunShot funded project, Innovative Solar Business Models, this e-Lab work product was prepared by RMI to support e-Lab and industry-wide discussions about distributed energy resource valuation. e-Lab is a joint collaboration, convened by RMI, with participation from stakeholders across the electricity industry. e-Lab is not a consensus organization, and the views expressed in this document do not necessarily represent those of any individual e-Lab member or supporting organizations. Any errors are solely the responsibility of RMI.

e-Lab members and advisors were invited to provide input on this report. The assessment greatly benefited from contributions by the following individuals: Stephen Frantz, Sacramento Municipal Utility District (SMUD); Mason Emnett, Federal Energy Regulatory Commission (FERC); Eran Mahrer, Solar Electric Power Association (SEPA); Sunil Cherian, Spirae; Karl Rabago, Rabago Energy; Tom Brill and Chris Yunker, San Diego Gas & Electric (SDG&E); and Steve Wolford, Sunverge.

WHAT IS e-LAB?

The Electricity Innovation Lab (e-Lab) brings together thought leaders and decision makers from across the U.S. electricity sector to address critical institutional, regulatory, business, economic, and technical barriers to the economic deployment of distributed resources.

In particular, e-Lab works to answer three key questions:

- How can we understand and effectively communicate the costs and benefits of distributed resources as part of the electricity system and create greater grid flexibility?
- How can we harmonize regulatory frameworks, pricing structures, and business models of utilities and distributed resource developers for greatest benefit to customers and society as a whole?
- How can we accelerate the pace of economic distributed resource adoption?

A multi-year program, e-Lab regularly convenes its members to identify, test, and spread practical solutions to the challenges inherent in these questions. e-Lab has three annual meetings, coupled with ongoing project work, all facilitated and supported by Rocky Mountain Institute. e-Lab meetings allow members to share learnings, best practices, and analysis results; collaborate around key issues or needs; and conduct deep-dives into research and analysis findings.

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

THE NEED

- The addition of distributed energy resources (DERs) onto the grid creates new opportunities and challenges because of their unique siting, operational, and ownership characteristics compared to conventional centralized resources.

- Today, the increasingly rapid adoption of distributed solar photovoltaics (DPV) in particular is driving a heated debate about whether DPV creates benefits or imposes costs to stakeholders within the electricity system. But the wide variation in analysis approaches and quantitative tools used by different parties in different jurisdictions is inconsistent, confusing, and frequently lacks transparency.

- Without increased understanding of the benefits and costs of DERs, there is little ability to make effective tradeoffs between investments.

OBJECTIVE OF THIS DOCUMENT

- The objective of this e-Lab discussion document is to assess what is known and unknown about the categorization, methodological best practices, and gaps around the benefits and costs of DPV, and to begin to establish a clear foundation from which additional work on benefit/cost assessments and pricing structure design can be built.

- This discussion document reviews 16 DPV benefit/cost studies by utilities, national labs, and other organizations. Completed between 2005 and 2013, these studies reflect a significant range of estimated DPV value.

KEY INSIGHTS

- No study comprehensively evaluated the benefits and costs of DPV, although many acknowledge additional sources of benefit or cost and many agree on the broad categories of benefit and cost. There is broad recognition that some benefits and costs may be difficult or impossible to quantify, and some accrue to different stakeholders.

- There is a significant range of estimated value across studies, driven primarily by differences in local context, input assumptions, and methodological approaches.

    - **Local context**: Electricity system characteristics—generation mix, demand projections, investment plans, market structures—vary across utilities, states, and regions.
    - **Input assumptions**: Input assumptions—natural gas price forecasts, solar power production, power plant heat rates—can vary widely.
    - **Methodologies**: Methodological differences that most significantly affect results include (1) resolution of analysis and granularity of data, (2) assumed cost and benefit categories and stakeholder perspectives considered, and (3) approaches to calculating individual values.

- Because of these differences, comparing results across studies can be informative, but should be done with the understanding that results must be normalized for context, assumptions, or methodology.

- While detailed methodological differences abound, there is general agreement on overall approach to estimating energy value and some philosophical agreement on capacity value, although there remain key differences in capacity methodology. There is significantly less agreement on overall approach to estimating grid support services and currently unmonetized values including financial and security risk, environment, and social value.

EXECUTIVE SUMMARY (CONT'D)

IMPLICATIONS

- Methods for identifying, assessing and quantifying the benefits and costs of DPV and other DERs are advancing rapidly, but important gaps remain to be filled before this type of analysis can provide an adequate foundation for policymakers and regulators engaged in determining levels of incentives, fees, and pricing structures for DPV and other DERs.

- In any benefit/cost study, it is critical to be transparent about assumptions, perspectives, sources and methodologies so that studies can be more readily compared, best practices developed, and drivers of results understood.

- While it may not be feasible to quantify or assess sources of benefit and cost comprehensively, benefit/cost studies must explicitly decide if and how to account for each source of value and state which are included and which are not.

- While individual jurisdictions must adapt approaches based on their local context, standardization of categories, definitions, and methodologies should be possible to some degree and will help ensure accountability and verifiability of benefit and cost estimates that provide a foundation for policymaking.

- The most significant methodological gaps include:

    - **Distribution value:** The benefits or costs that DPV creates in the distribution system are inherently local, so accurately estimating value requires much more analytical granularity and therefore greater difficulty.
    - **Grid support services value:** There continues to be uncertainty around whether and how DPV can provide or require additional grid support services, but this could potentially become an increasingly important value.
    - **Financial, security, environmental, and social values:** These values are largely (though not comprehensively) unmonetized as part of the electricity system and some are very difficult to quantify.

LOOKING AHEAD

- Thus far, studies have made simplifying assumptions that implicitly assume historically low penetrations of DPV. As the penetration of DPV on the electric system increases, more sophisticated, granular analytical approaches will be needed and the total value is likely to change.

- Studies have largely focused on DPV by itself. But a confluence of factors is likely to drive increased adoption of the full spectrum of renewable and distributed resources, requiring a consideration of DPV's benefits and costs in the context of a changing system.

- With better recognition of the costs and benefits that all DERs can create, including DPV, pricing structures and business models can be better aligned, enabling greater economic deployment of these resources and lower overall system costs for ratepayers.

FRAMING THE NEED

01

- overview
- distributed energy resources
- structural misalignments
- structural misalignments in practice

FRAMING THE NEED

- A confluence of factors including rapidly falling solar prices, supportive policies, and new approaches to finance are leading to a steadily increasing solar PV market.
    - In 2012, the US added 2 GW of solar PV to the nation's generation mix, of which approximately 50% were customer-sited solar, net-metered projects.[1]
    - Solar penetrations in certain regions are becoming significant. About 80% of customer-sited PV is concentrated in states with either ample solar resource and/or especially solar-friendly policies: California, New Jersey, Arizona, Hawaii and Massachusetts.[2]
- The addition of DPV onto the grid creates new challenges and opportunities because of its unique siting, operational, and ownership characteristics compared to conventional centralized resources. The value of DPV is temporally, operationally and geographically specific and varies by distribution feeder, transmission line configuration, and composition of the generation fleet.
- Under today's regulatory and pricing structures, multiple misalignments along economic, social and technical dimensions are emerging. For example, in many instances pricing mechanisms are not in place to recognize or reward service that is being provided by either the utility or customer.
- Electricity sector stakeholders around the country are recognizing the importance of properly valuing DPV and the current lack of clarity around the costs and benefits that drive DPV's value, as well as how to calculate them.
- To enable better technical integration and economic optimization, it is critical to better understand the services that DPV can provide and require, and the benefits and costs of those services as a foundation for more accurate pricing and market signals. As the penetration of DPV and other customer-sited resources increases, accurate pricing and market signals can help align stakeholder goals, minimize total system cost, and maximize total net value.

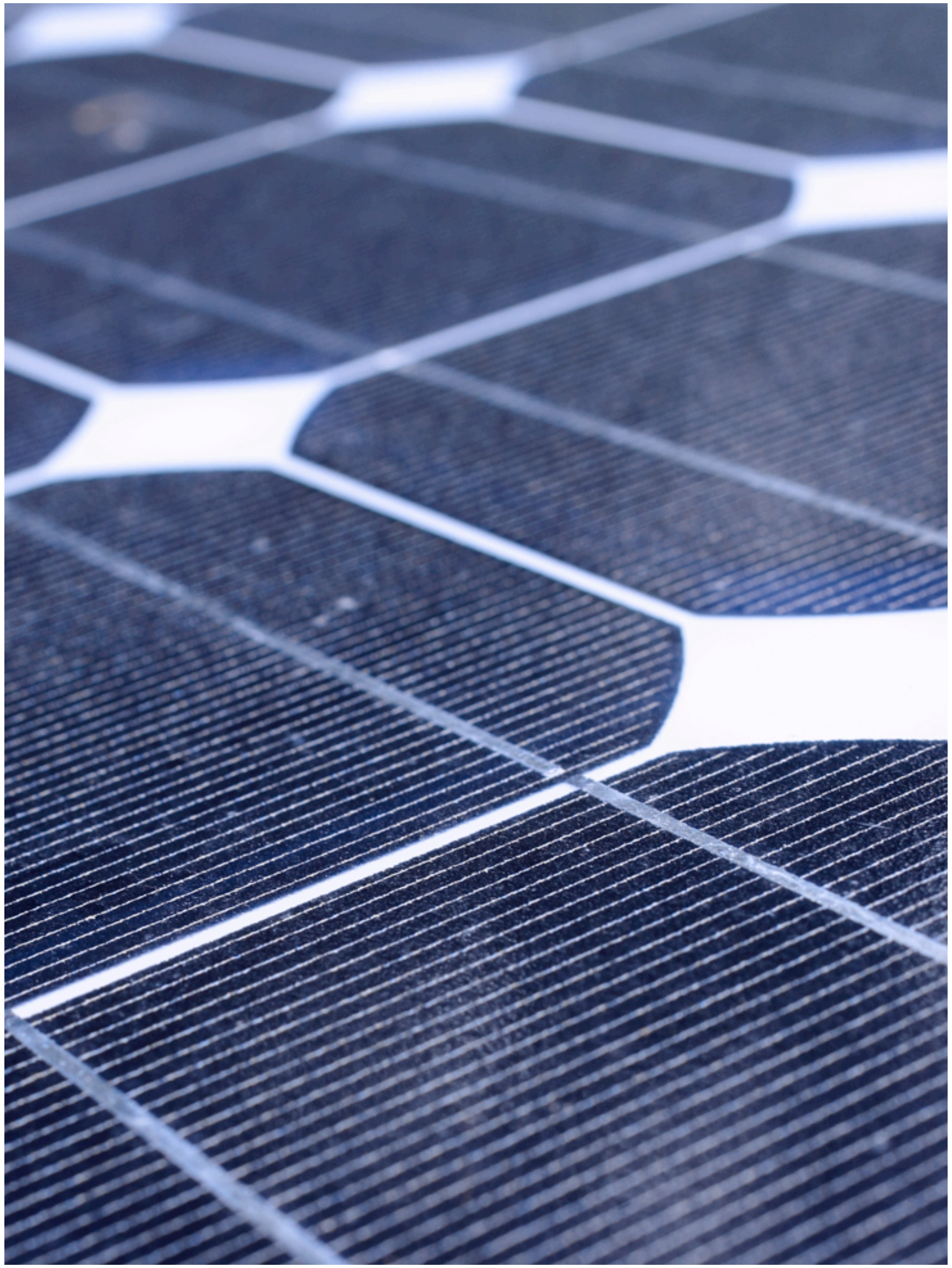


Photo courtesy of Shutterstock

1. Solar Electric Power Association. June 2013. *2012 SEPA Utility Solar Rankings,* Washington, DC.
2. Ibid.

DPV IN THE BROADER CONTEXT OF DISTRIBUTED ENERGY RESOURCES

DISTRIBUTED ENERGY RESOURCES (DERs): demand- and supply-side resources that can be deployed throughout an electric distribution system to meet the energy and reliability needs of the customers served by that system. DERs can be installed on either the customer side or the utility side of the meter.

TYPES OF DERs:

Efficiency

Technologies and behavioral changes that reduce the quantity of energy that customers need to meet all of their energy-related needs.

Distributed generation

Small, self-contained energy sources located near the final point of energy consumption. The main distributed generation sources are:

- Solar PV
- Combined heat & power (CHP)
- Small-scale wind
- Others (i.e., fuel cells)

Distributed flexibility & storage

A collection of technologies that allows the overall system to use energy smarter and more efficiently by storing it when supply exceeds demand, and prioritizing need when demand exceeds supply. These technologies include:

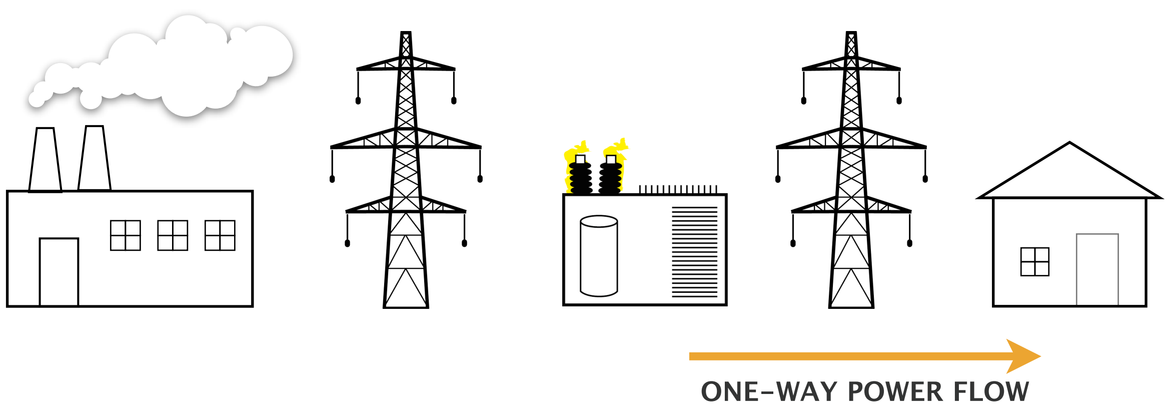
- Demand response
- Electric vehicles
- Thermal storage
- Battery storage

Distributed intelligence

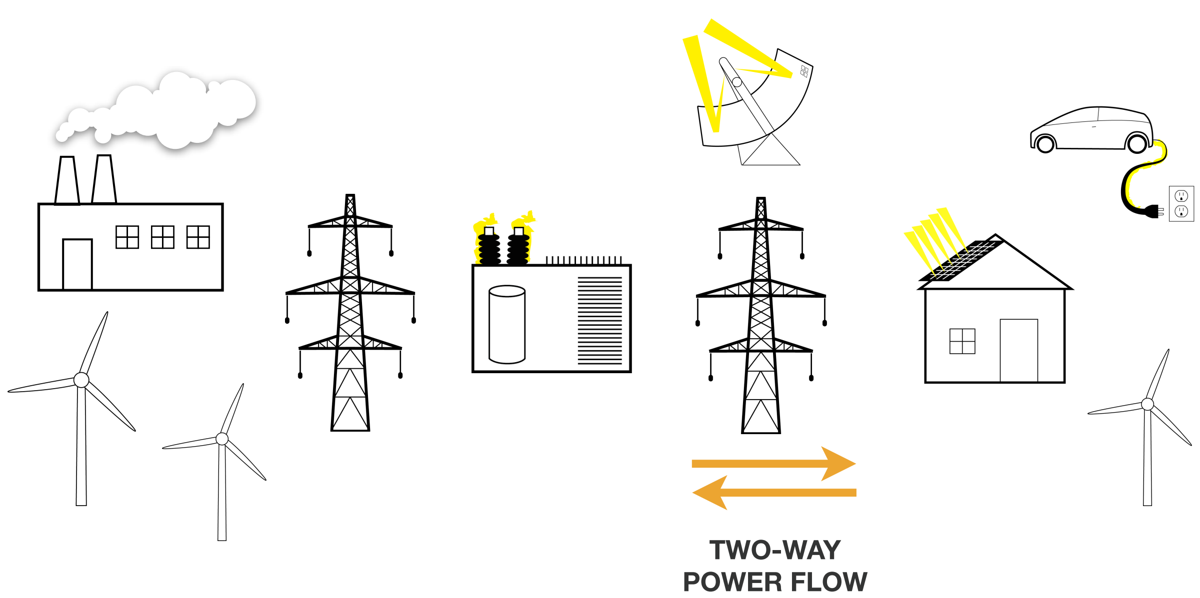
Technologies that combine sensory, communication, and control functions to support the electricity system, and magnify the value of DER system integration. Examples include:

- Smart inverters
- Home-area networks
- Microgrids

CURRENT SYSTEM/VALUE CHAIN:



FUTURE SYSTEM/VALUE CONSTELLATION:



WHAT MAKES DERs UNIQUE:

Siting

Smaller, more modular energy resources can be installed by disparate actors outside of the purview of centrally coordinated resource planning.

Operations

Energy resources on the distribution network operate outside of centrally controlled dispatching mechanisms that control the real-time balance of generation and demand.

Ownership

DERs can be financed, installed or owned by the customer or a third party, broadening the typical planning capability and resource integration approach.

STRUCTURAL MISALIGNMENTS

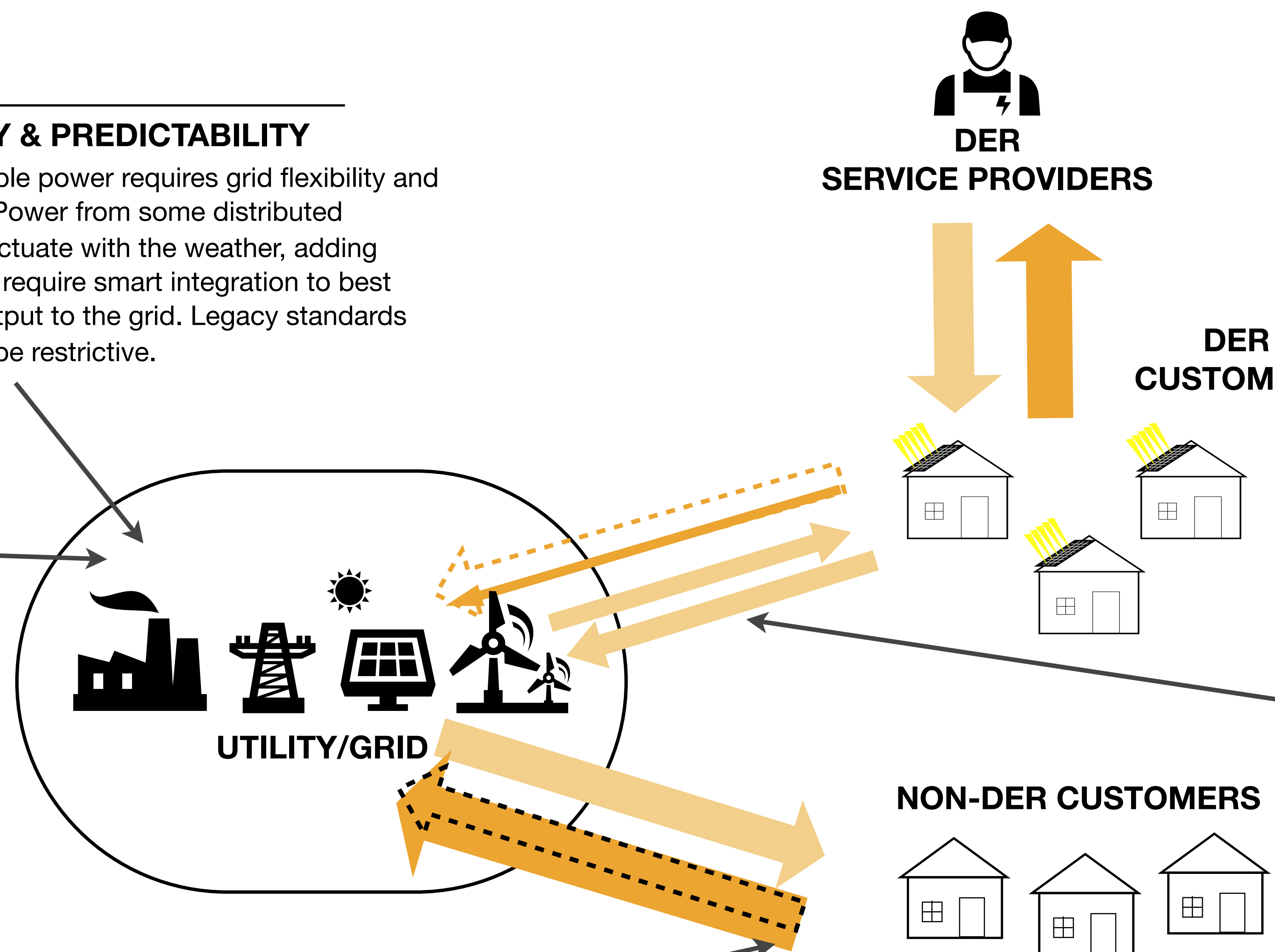
TODAY, OPERATIONAL AND PRICING MECHANISMS DESIGNED FOR AN HISTORICALLY CENTRALIZED ELECTRICITY SYSTEM ARE NOT WELL-ADAPTED TO THE INTEGRATION OF DERS, CAUSING FRICTION AND INEFFICIENCY

FLEXIBILITY & PREDICTABILITY

Providing reliable power requires grid flexibility and predictability. Power from some distributed renewables fluctuate with the weather, adding variability, and require smart integration to best shape their output to the grid. Legacy standards and rules can be restrictive.

LOCATION & TIME

Limited feedback loop to customers that the costs or benefit of any electricity resource, especially DERs, vary by location and time.



BENEFIT AND COST RECOGNITION AND ALLOCATION

Mechanisms are not in place to transparently recognize or compensate service (be it monetized grid services like energy, capacity or balancing supply and demand, or less consistently monetized values, such as carbon emissions savings) provided by the utility or the customer. To the utility, revenue from DER customers may not match the cost to serve those customers. To the customer, bill savings or credit may not match the value provided.

SOCIAL PRIORITIES

Society values the environmental and social benefits that DERs could provide, but those benefits are often externalized and unmonetized.

SOCIAL EQUITY

If costs are incurred by DER customers that are not paid for, those costs would be allocated to the rest of customers. Conversely, DER customers also provide benefits to other customers and to society.

$$ service

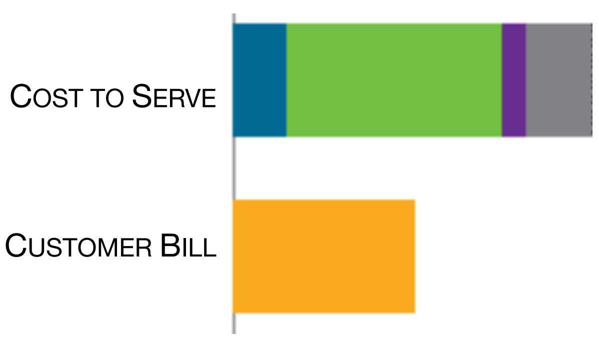
Adapted from RMI, Net Energy Metering, Zero Net Energy And The Distributed Energy Resource Future: Adapting Electric Utility Business Models For The 21st Century

STRUCTURAL MISALIGNMENTS IN PRACTICE

THESE STRUCTURAL MISALIGNMENTS ARE LEADING TO IMPORTANT QUESTIONS, DEBATE, AND CONFLICT

VALUE UNCERTAINTY...

WHAT IF A DPV CUSTOMER DOES NOT PAY FOR THE FULL COST TO SERVE THEIR DEMAND?



WHAT IF A DPV CUSTOMER IS NOT FULLY COMPENSATED FOR THE SERVICE THEY PROVIDE?

...DRIVES HEADLINES...

...RAISING KEY QUESTIONS

- What benefits can customers provide? Is the ability of customers to provide benefits contingent on anything?
- What costs are incurred to support DPV customer needs?
- What are the best practice methodologies to assess benefits and costs?
- How should externalized and unmonetized values, such as environmental and social benefits, be recognized?
- How can benefits and costs be more effectively allocated and priced?

SETTING THE STAGE

defining value
categories of value
stakeholder implications

02

SETTING THE STAGE

- When considering the total value of DPV or any electricity resource, it is critical to consider the types of value, the stakeholder perspective and the flow of benefits and costs–that is, who incurs the costs and who receives the benefits (or avoids the costs).

- For the purposes of this report, value is defined as net value, i.e. benefits minus costs. Depending upon the size of the benefit and the size of the cost, value can be positive or negative.

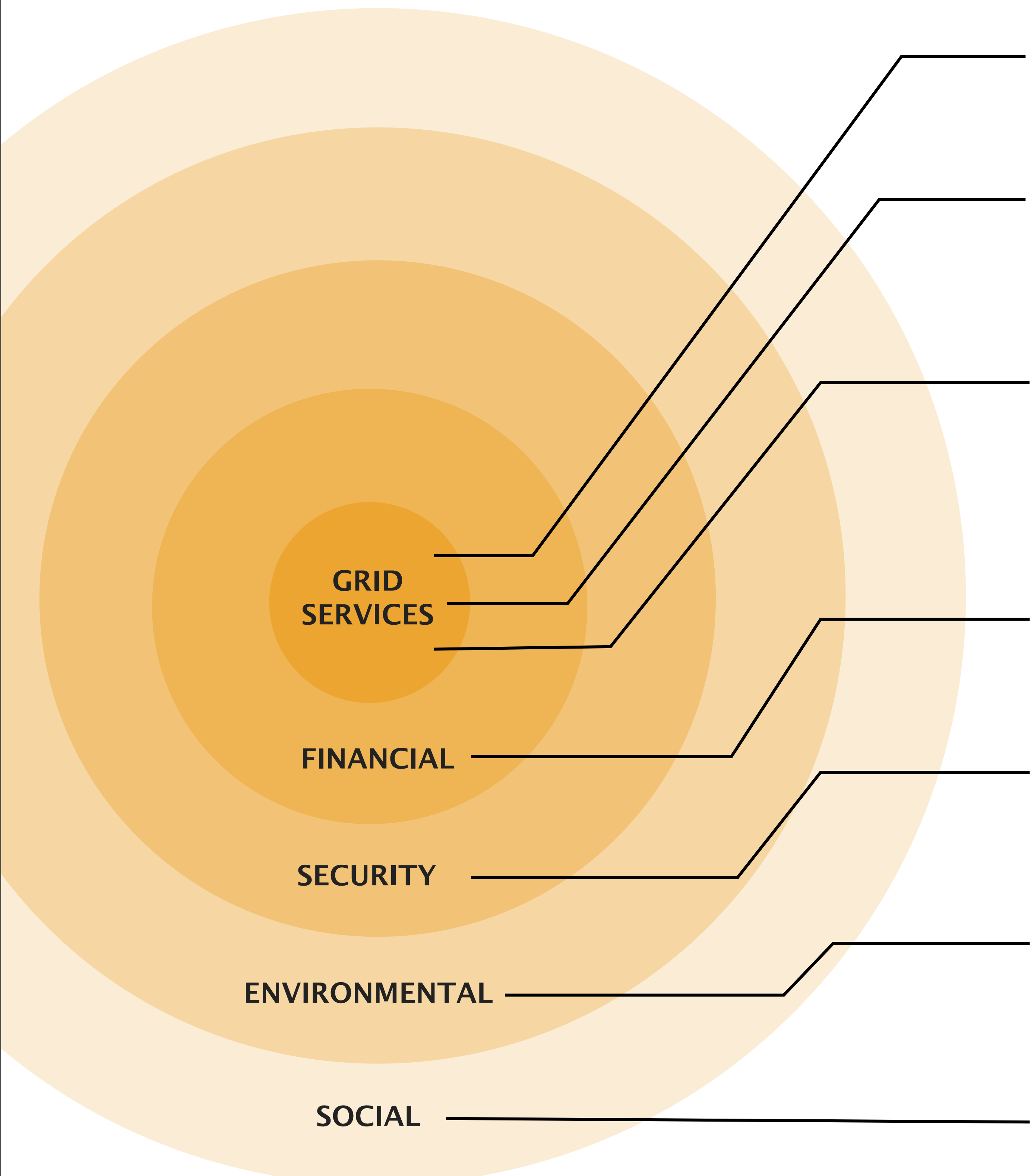
- A variety of categories of benefits or costs of DPV have been considered or acknowledged in evaluating the value of DPV. Broadly, these categories are: energy, system losses, capacity (generation, transmission and distribution), grid support services, financial risk, security risk, environmental and social.

- These categories of costs and benefits differ significantly by the degree to which they are readily quantifiable or there is a generally accepted methodology for doing so. For example, there is general agreement on overall approach to estimating energy value and some philosophical agreement on capacity value, although there remain key differences in capacity methodology. There is significantly less agreement on overall approach to estimating grid support services and currently unmonetized values including financial and security risk, environment, and social value.

- Equally important, the qualification of whether a factor is a benefit or cost also differs depending upon the perspective of the stakeholder. Similar to the basic framing of testing cost effectiveness for energy efficiency, the primary stakeholders in calculating the value of DPV are: the participant (the solar customer); the utility; other customers (also referred to as ratepayers); and society (taxpayers are a subset of society).

BENEFIT & COST CATEGORIES

For the purposes of this report, **value is defined as net value, i.e. benefits minus costs.** Depending upon the size of the benefit and the size of the cost, value can be positive or negative. A variety of categories of benefits or costs of DPV have been considered or acknowledged in evaluating the value of DPV. Broadly, these categories are:



ENERGY
- energy
- system losses

CAPACITY
- generation capacity
- transmission & distribution capacity
- DPV installed capacity

GRID SUPPORT SERVICES
- reactive supply & voltage control
- regulation & frequency response
- energy & generator imbalance
- synchronized & supplemental operating reserves
- scheduling, forecasting, and system control & dispatch

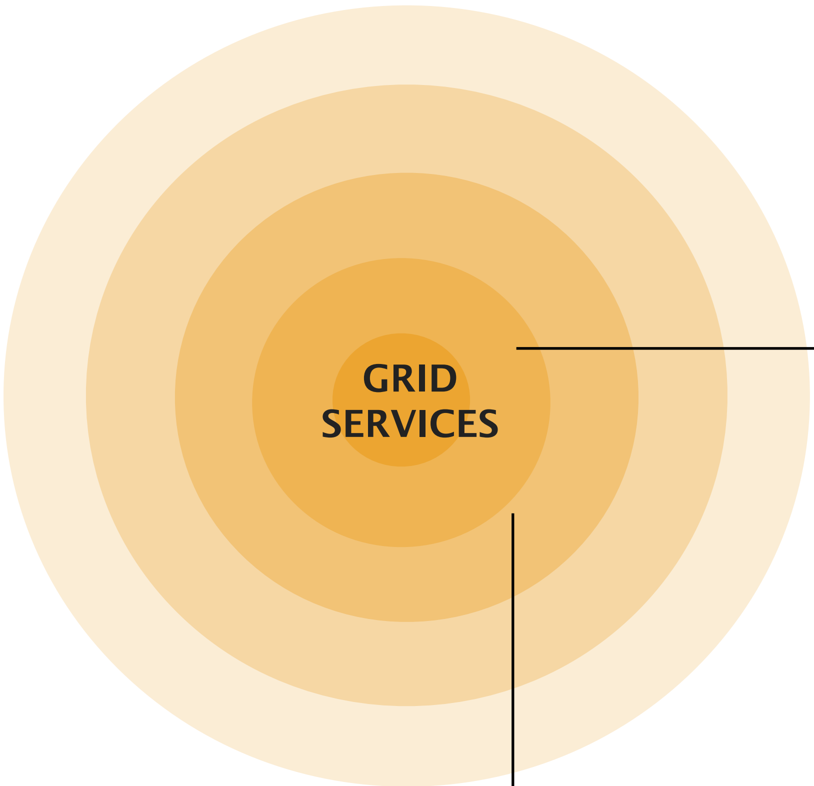
FINANCIAL RISK
- fuel price hedge
- market price response

SECURITY RISK
- reliability & resilience

ENVIRONMENTAL
- carbon emissions (CO_2)
- criteria air pollutants (SO_2, NO_x, PM)
- water
- land

SOCIAL
- economic development (jobs and tax revenues)

BENEFIT & COST CATEGORIES DEFINED



ENERGY

Energy value of DPV is positive when the solar energy generated displaces the need to produce energy from another resource at a net savings. There are two primary components:

- **Avoided Energy** - The cost and amount of energy that would have otherwise been generated to meet customer needs, largely driven by the variable costs of the marginal resource that is displaced. In addition to the coincidence of solar generation with demand and generation, key drivers of avoided energy cost include (1) fuel price forecast, (2) variable operation & maintenance costs, and (3) heat rate.

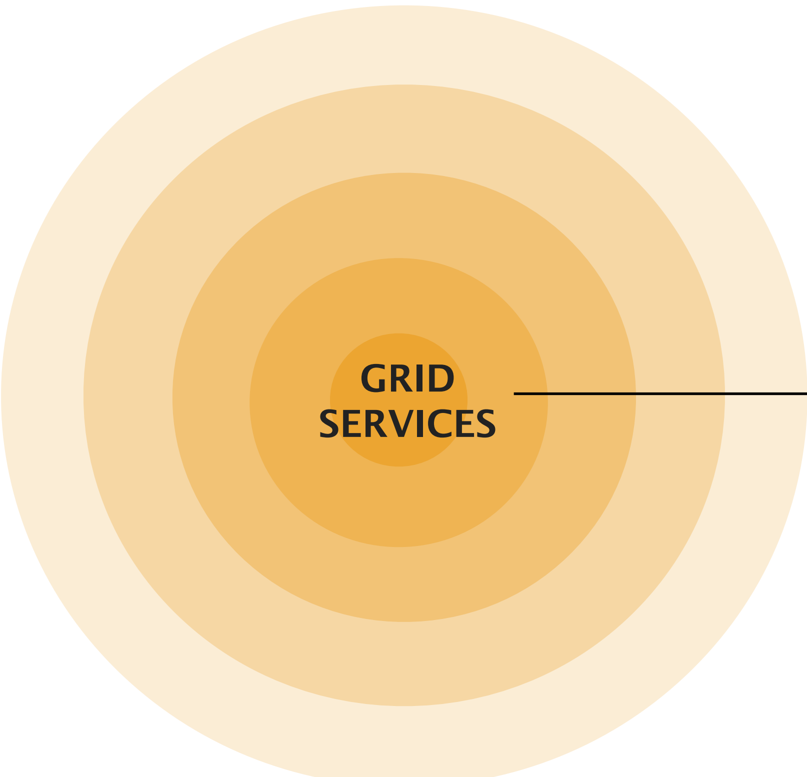
- **System Losses** - The compounded value of the additional energy generated by central plants that would otherwise be lost due to inherent inefficiencies (electrical resistance) in delivering energy to the customer via the transmission and distribution system. Since DPV generates energy at or near the customer, those losses are avoided. Losses act as a magnifier of value for capacity and environmental benefits, since avoided energy losses result in lower required capacity and lower emissions.

CAPACITY

Capacity value of DPV is positive when the addition of DPV defers or avoids more investment in generation, transmission, and distribution assets than it incurs. There are two primary components:

- **Generation Capacity** - The cost of the amount of central generation capacity that can be deferred or avoided due to the addition of DPV. Key drivers of value include (1) DPV's effective capacity and (2) system capacity needs.

- **Transmission & Distribution Capacity** - The value of the net change in T&D infrastructure investment due to DPV. Benefits occur when DPV is able to meet rising demand locally, relieving capacity constraints upstream and deferring or avoiding T&D upgrades. Costs occur when additional T&D investment is needed to support the addition of DPV.



GRID SUPPORT SERVICES

Grid support value of DPV is positive when the net amount and cost of grid support services required to balance supply and demand is less than would otherwise have been required. Grid support services, which encompass more narrowly defined ancillary services (AS), are those services required to enable the reliable operation of interconnected electric grid systems. Grid support services include:

- **Reactive Supply and Voltage Control**— Generation facilities used to supply reactive power and voltage control.

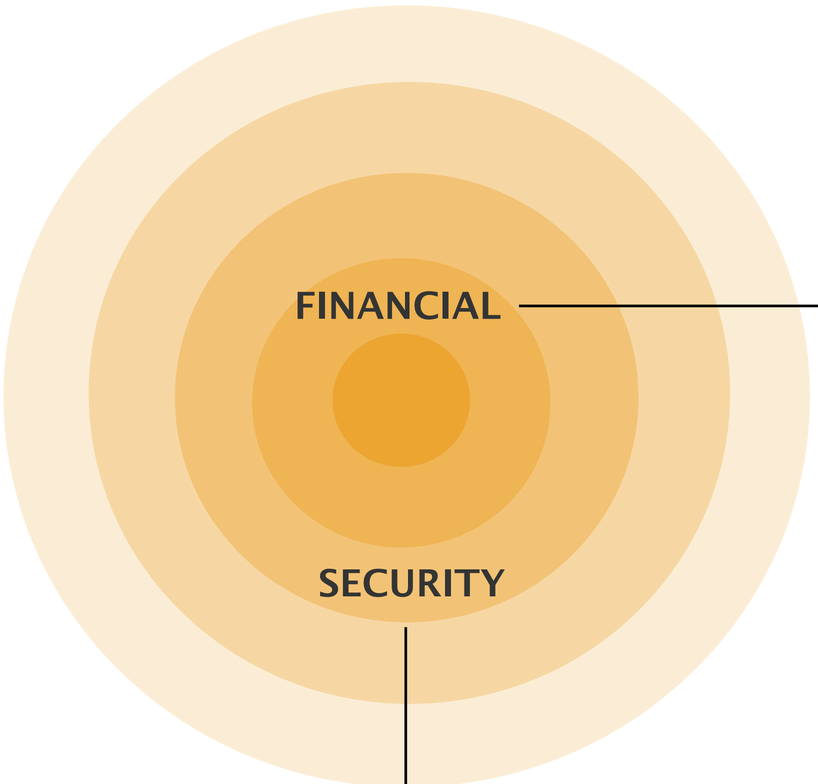
- **Frequency Regulation**—Control equipment and extra generating capacity necessary to (1) maintain frequency by following the moment-to-moment variations in control area load (supplying power to meet any difference in actual and scheduled generation), and (2) to respond automatically to frequency deviations in their networks. While the services provided by regulation service and frequency response service are different, they are complementary services made available using the same equipment and are offered as part of one service.

- **Energy Imbalance**—This service supplies any hourly net mismatch between scheduled energy supply and the actual load served.

- **Operating Reserves**—Spinning reserve is provided by generating units that are on-line and loaded at less than maximum output, and should be located near the load (typically in the same control area). They are available to serve load immediately in an unexpected contingency. Supplemental reserve is generating capacity used to respond to contingency situations that is not available instantaneously, but rather within a short period, and should be located near the load (typically in the same control area).

- **Scheduling/Forecasting**—Interchange schedule confirmation and implementation with other control areas, and actions to ensure operational security during the transaction.

BENEFIT & COST CATEGORIES DEFINED



FINANCIAL RISK

Financial value of DPV is positive when financial risk or overall market price is reduced due to the addition of DPV. Two components considered in the studies reviewed are:

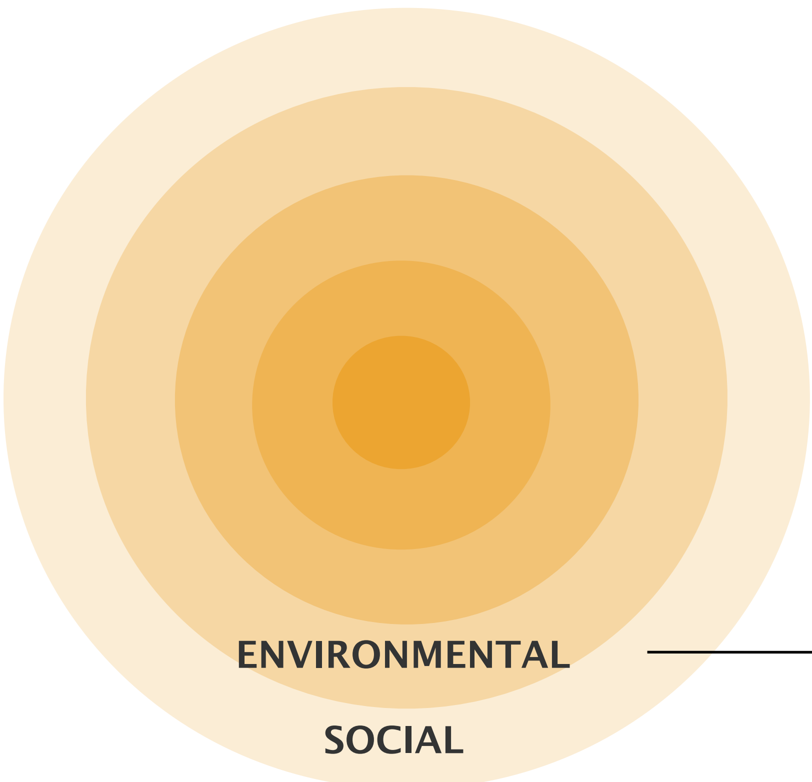
- **Fuel Price Hedge** - The cost that a utility would otherwise incur to guarantee that a portion of electricity supply costs are fixed.

- **Market Price Response** - The price impact as a result of DPV's reducing demand for centrally-supplied electricity and the fuel that powers those generators, thereby lowering electricity prices and potentially commodity prices.

SECURITY RISK

Security value of DPV is positive when grid reliability and resiliency are increased by (1) reducing outages by reducing congestion along the T&D network, (2) reducing large-scale outages by increasing the diversity of the electricity system's generation portfolio with smaller generators that are geographically dispersed, and (3) providing back-up power sources available during outages through the combination of PV, control technologies, inverters and storage.

BENEFIT & COST CATEGORIES DEFINED



ENVIRONMENTAL

Environmental value of DPV is positive when DPV results in the reduction of environmental or health impacts that would otherwise have been created. Key drivers include primarily the environmental impacts of the marginal resource being displaced. There are four components of environmental value:

- **Carbon** - The value from reducing carbon emissions is driven by the emission intensity of displaced marginal resource and the price of emissions.

- **Criteria Air Pollutants** - The value from reducing criteria air pollutant emissions—NO_X, SO_2, and particulate matter—is driven by the cost of abatement technologies, the market value of pollutant reductions, and/or the cost of human health damages.

- **Water** - The value from reducing water use is driven by the differing water consumption patterns associated with different generation technologies, and is sometimes measured by the price paid for water in competing sectors.

- **Land** - The value associated with land is driven by the difference in the land footprint required for energy generation and any change in property value driven by the addition of DPV.

- **Avoided Renewable Portfolio Standard costs (RPS)** - The value derived from meeting electricity demand through DPV, which reduces total demand that would otherwise have to be met and the associated renewable energy that would have to be procured as mandated by an RPS.

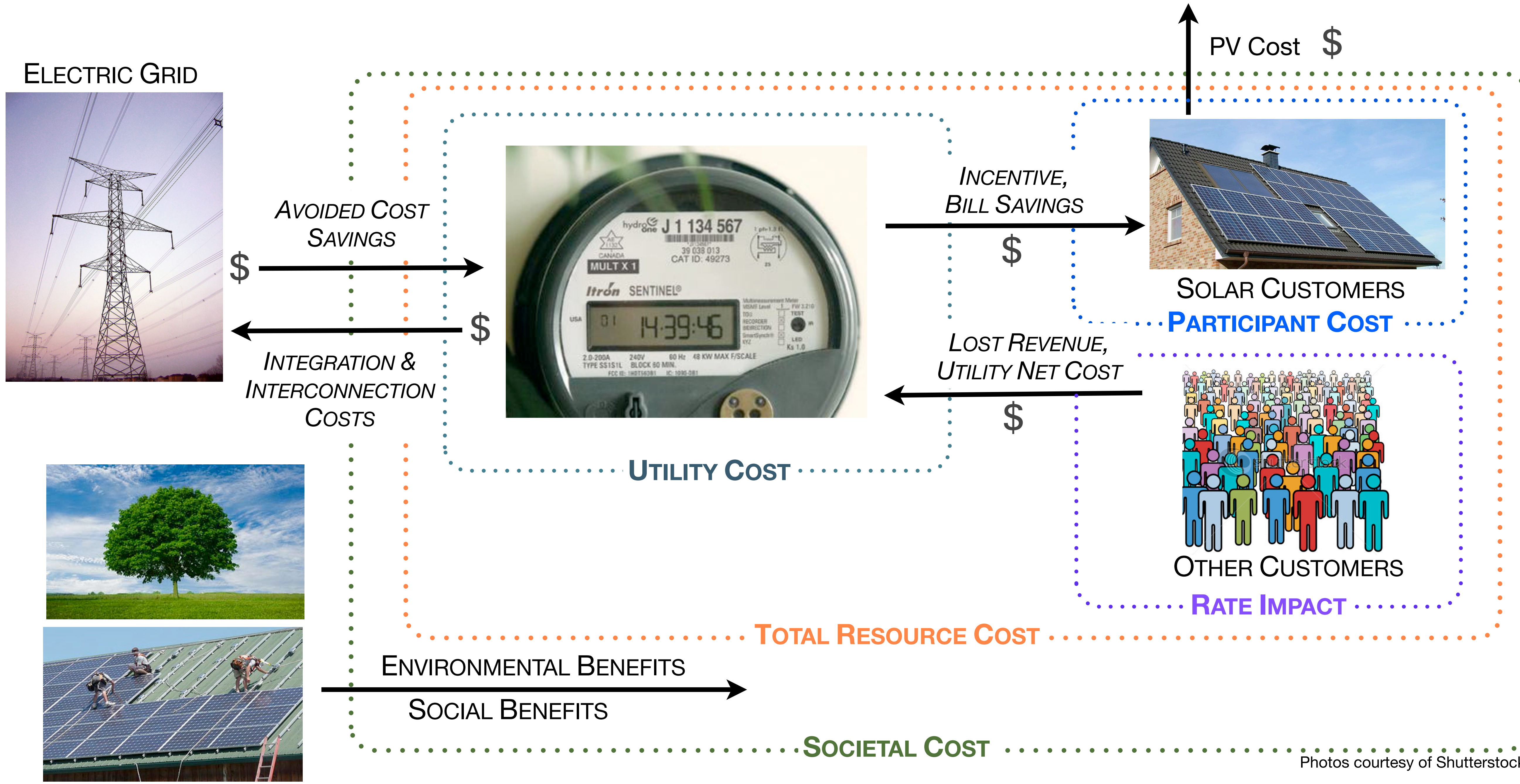
SOCIAL

The studies reviewed in this report defined social value in economic terms. The social value of DPV was positive when DPV resulted in a net increase in jobs and local economic development. Key drivers include the number of jobs created or displaced, as measured by a job multiplier, as well as the value of each job, as measured by average salary and/or tax revenue.

FLOW OF BENEFITS AND COSTS

BENEFITS AND COSTS ACCRUE TO DIFFERENT STAKEHOLDERS IN THE SYSTEM

The California Standard Practice Manual established the general standard for evaluating the flow of benefits and costs of energy efficiency among stakeholders. This framework was adapted to illustrate the flow of benefits and costs for DPV.



Photos courtesy of Shutterstock

STAKEHOLDER PERSPECTIVES

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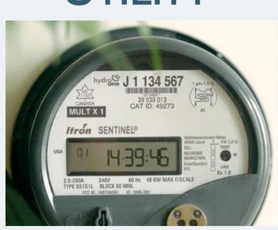
stakeholder perspective		factors affecting value
PV CUSTOMER 	"I want to have a predictable return on my investment, and I want to be compensated for benefits I provide."	Benefits include the reduction in the customer's utility bill, any incentive paid by the utility or other third parties, and any federal, state, or local tax credit received. Costs include cost of the equipment and materials purchased (inc. tax & installation), ongoing O&M, removal costs, and the customer's time in arranging the installation.
OTHER CUSTOMERS 	"I want reliable power at lowest cost."	Benefits include reduction in transmission, distribution, and generation, capacity costs; energy costs and grid support services. Costs include administrative costs, rebates/ incentives, and decreased utility revenue that is offset by increased rates.
UTILITY 	"I want to serve my customers reliably and safely at the lowest cost, provide shareholder value and meet regulatory requirements."	Benefits include reduction in transmission, distribution, and generation, capacity costs; energy costs and grid support services. Costs include administrative costs, rebates/ incentives, decreased revenue, integration & interconnection costs.
SOCIETY 	"We want improved air/water quality as well as an improved economy."	The sum of the benefits and costs to all stakeholder, plus any additional societal and environmental benefits or costs that accrue to society at large rather than any individual stakeholder.

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ANALYSIS FINDINGS

03

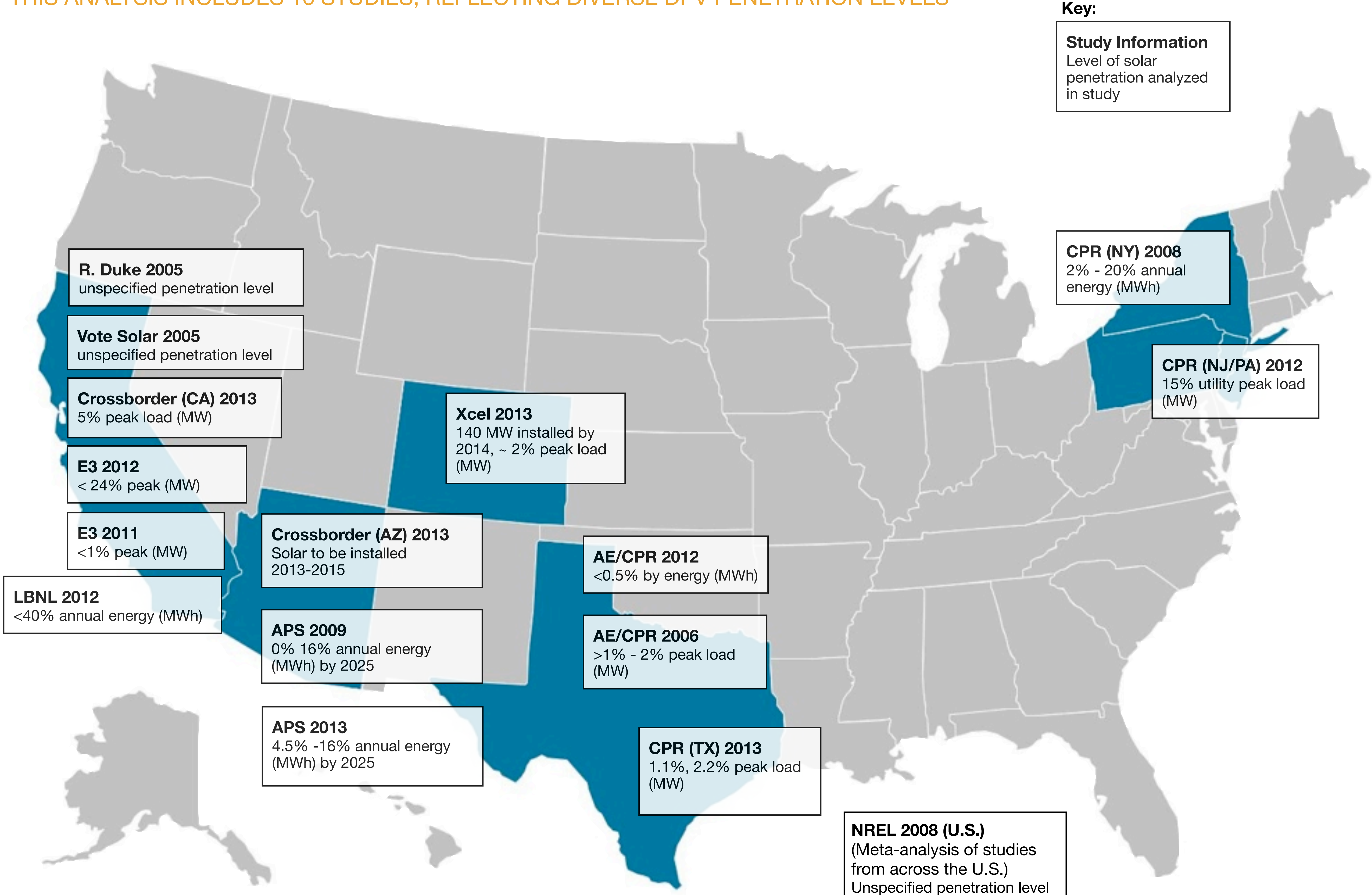
analysis overview

summary of benefits and costs

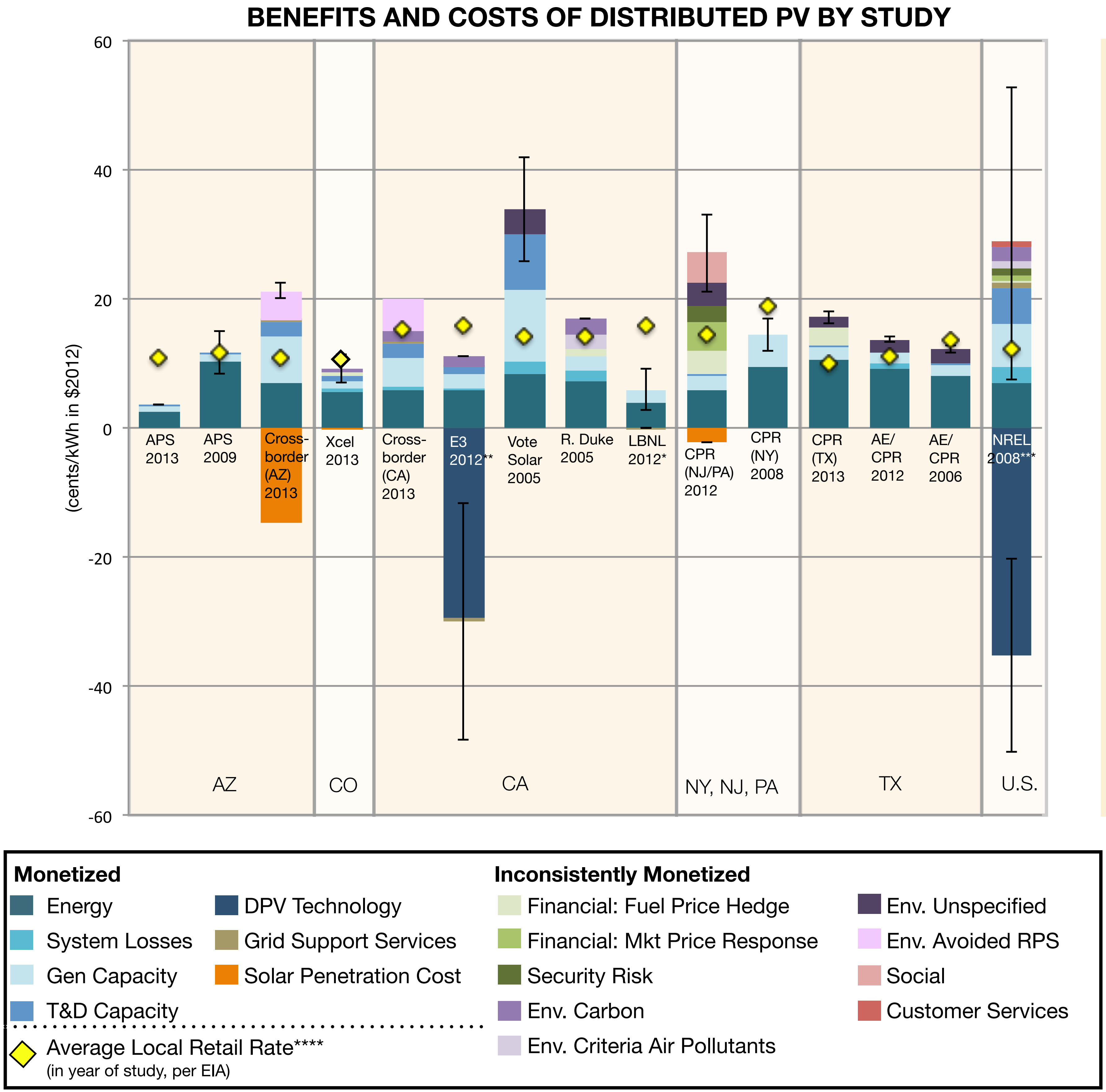
detail: categories of benefit and cost

ANALYSIS OVERVIEW

THIS ANALYSIS INCLUDES 16 STUDIES, REFLECTING DIVERSE DPV PENETRATION LEVELS



SUMMARY OF DPV BENEFITS AND COSTS



INSIGHTS

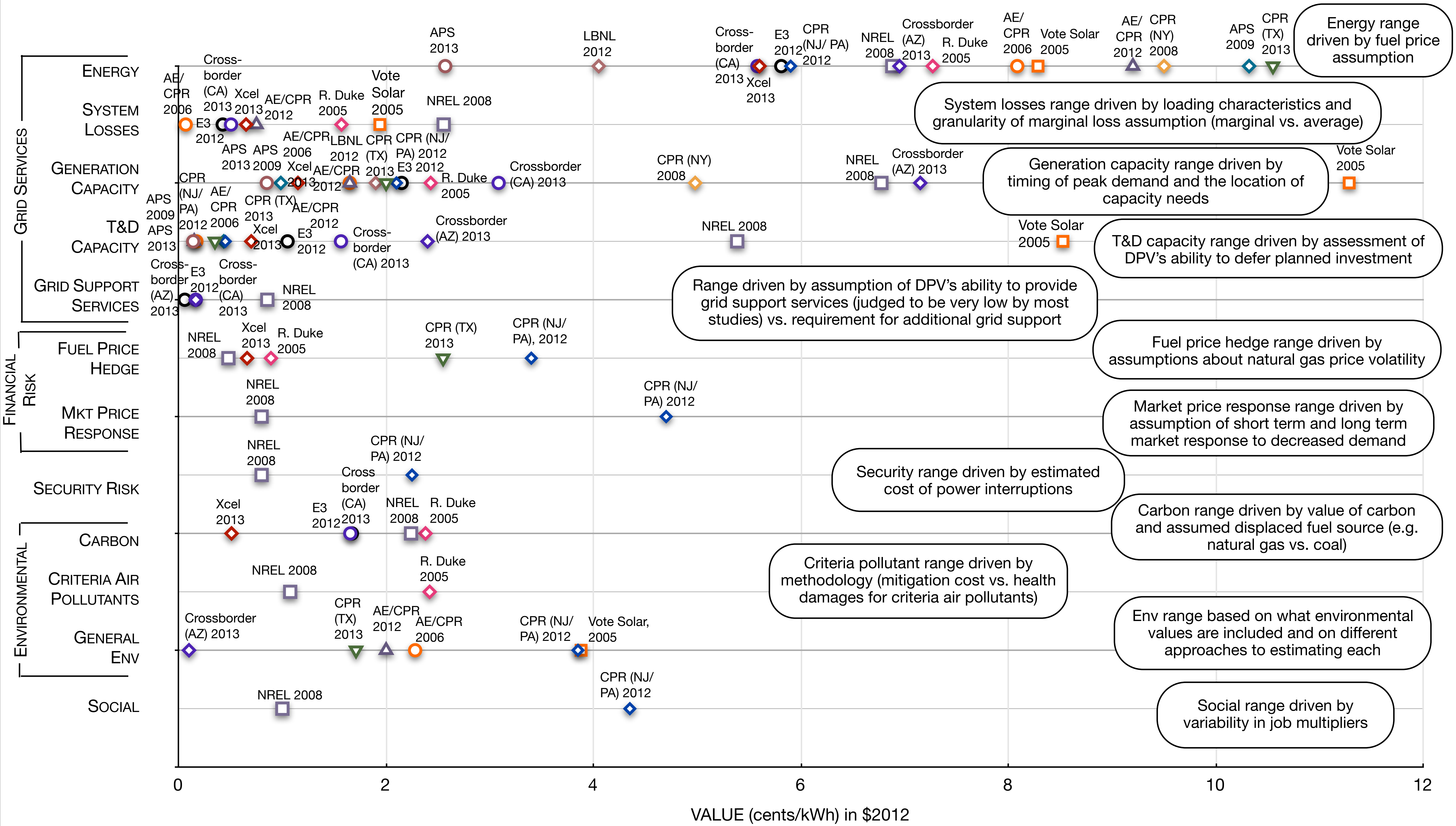
- No study comprehensively evaluated the benefits and costs of DPV, although many acknowledge additional sources of benefit or cost and many agree on the broad categories of benefit and cost.
- There is a significant range of estimated value across studies, driven primarily by differences in local context, input assumptions, and methodological approaches.
- Because of these differences, comparing results across studies can be informative, but should be done with the understanding that results must be normalized for context, assumptions, or methodology.
- While detailed methodological differences abound, there is general agreement on overall approach to estimating energy value, although there remain key differences in capacity methodology. There is significantly less agreement on overall approach to estimating grid support services and currently unmonetized values including financial and security risk, environment, and social value.

* The LBNL study only gives the net value for ancillary services
** E3's DPV technology cost includes LCOE + interconnection cost
*** The NREL study is a meta-analysis, not a research study. Customer Services, defined as the value to customer of a green option, was only reflected in the NREL 2008 meta-analysis and not included elsewhere in this report.
****Average retail rate included for reference; it is not appropriate to compare the average retail rate to total benefits presented without also reflecting costs (i.e., net value) and any material differences within rate designs (i.e., not average).
Note: E3 2012 study not included in this chart because that study did not itemize results. See page 47.

BENEFIT ESTIMATES

THE RANGE IN BENEFIT ESTIMATES ACROSS STUDIES IS DRIVEN BY VARIATION IN SYSTEM CONTEXT, INPUT ASSUMPTIONS, AND METHODOLOGIES

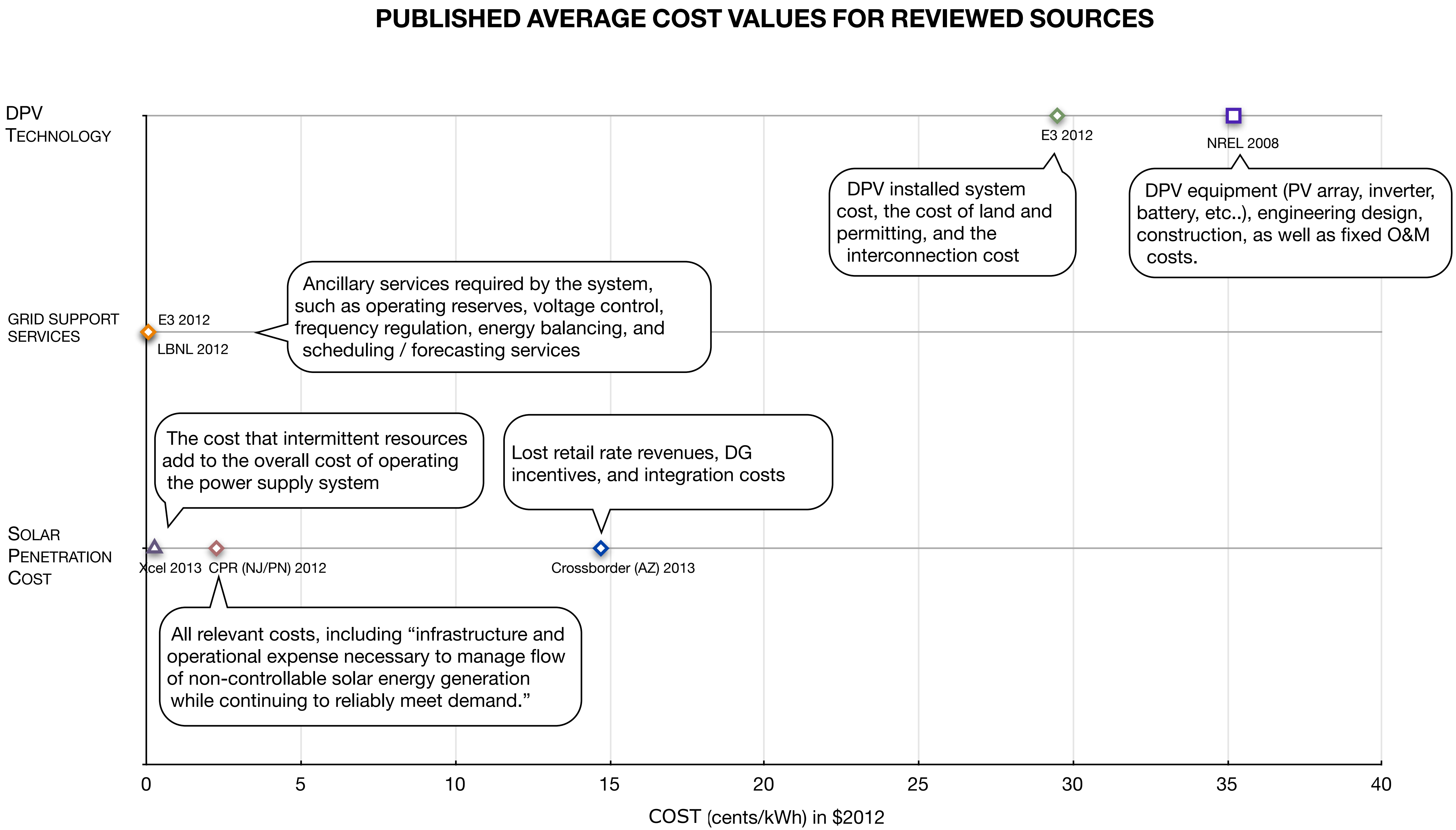
PUBLISHED AVERAGE BENEFIT ESTIMATES*



*For the full range of values observed see the individual methodology slides.

COST ESTIMATES

COSTS ASSOCIATED WITH INCREASED DPV DEPLOYMENT ARE NOT ADEQUATELY ASSESSED



Other studies (for example E3 2011) include costs, but results are not presented individually in the studies and so not included in the chart above. Costs generally include costs of program rebates or incentives paid by the utility, program administration costs, lost revenue to the utility, stranded assets, and costs and inefficiencies associated with throttling down existing plants.

ENERGY

VALUE OVERVIEW

Energy value is created when DPV generates energy (kWh) that displaces the need to produce energy from another resource. There are two components of energy value: the amount of energy that would have been generated equal to the DPV generation, and the additional energy that would have been generated but lost in delivery due to inherent inefficiencies in the transmission and distribution system. This second category of losses is sometimes reflected separately as part of the system losses category.

APPROACH OVERVIEW

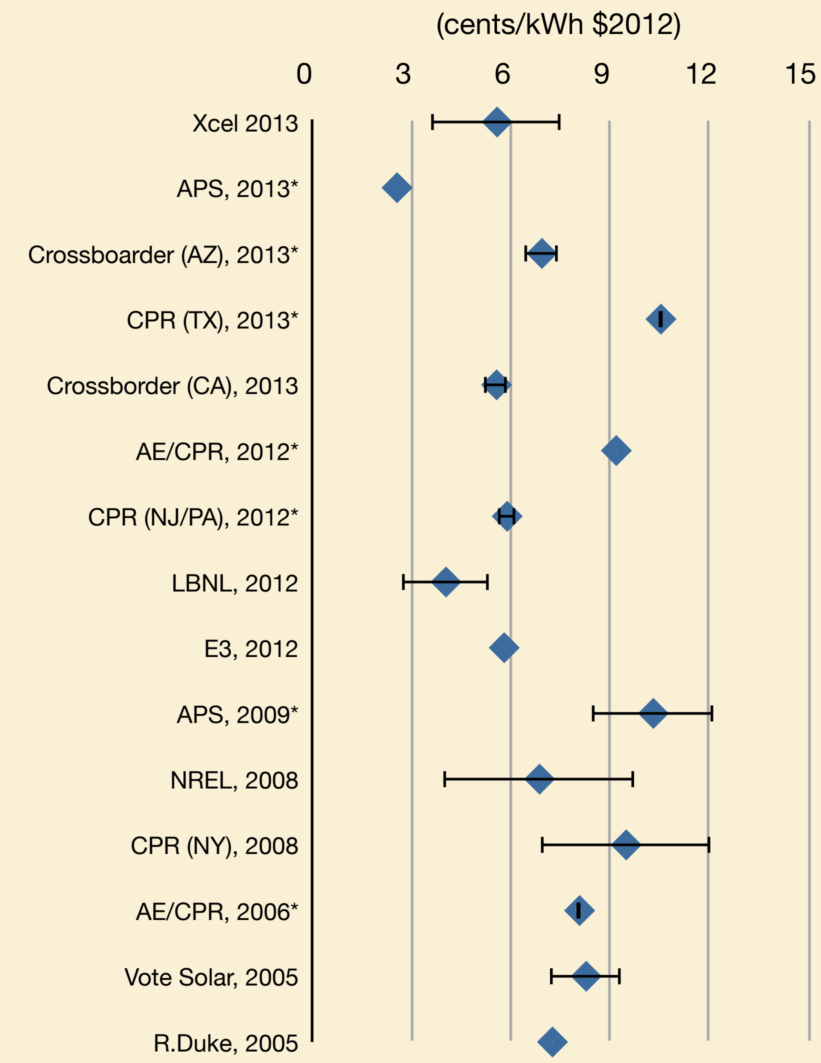
There is broad agreement on the general approach to calculating energy value, although numerous differences in methodological details. Energy is frequently the most significant source of benefit.

- Energy value is the avoided cost of the marginal resource, typically assumed to be natural gas.
- Key assumptions generally include fuel price forecast, operating & maintenance costs, and heat rate, and depending on the study, can include system losses and a carbon price.

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Market structure** - Some Independent System Operators (ISOs) and states value capacity and energy separately, whereas some ISOs only have energy markets without capacity markets. ISOs with only energy markets may reflect capacity value in the energy price.
  - **Marginal resource characterization** - Studies in regions with ISOs may calculate the marginal price based on wholesale market prices, rather than on the cost of the marginal power plant; different resources may be on the margin in different regions or with different solar penetrations.
- **Input Assumptions:**
  - **Fuel price forecast** - Since natural gas is usually on the margin, most studies focus on natural gas prices. Studies most often base natural gas prices on the New York Mercantile Exchange (NYMEX) forward market and then extrapolate to some future date (varied approaches to this extrapolation), but some take a different approach to forecasting, for example, based on Energy Information Administration projections.
  - **Power plant efficiency** - The efficiency of the marginal resource significantly impacts energy value; studies show a wide range of assumed natural gas plant heat rates.
  - **Variable operating & maintenance costs** - While there is some difference in values assumed by studies, variable O&M costs are generally low.
  - **Carbon price** - Some studies include an estimated carbon price in energy value, others account for it separately, and others do not include it at all.
- **Methodologies:**
  - **Study window** - Some studies (for example, APS 2013) calculate energy value in a sample year, whereas others (for example, Crossborder (AZ) 2013) calculate energy value as a levelized cost over 20 years.
  - **Marginal resource characterization** - Studies take one of three general approaches: (1) DPV displaces energy from a gas plant, generally a combined cycle, (2) DPV displaces energy from one type of plant (generally a combined cycle) off-peak and a different type of plant (generally a combustion turbine) on-peak, (3) DPV displaces the resource on the margin during every hour of the year, based on a dispatch analysis.

ENERGY BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



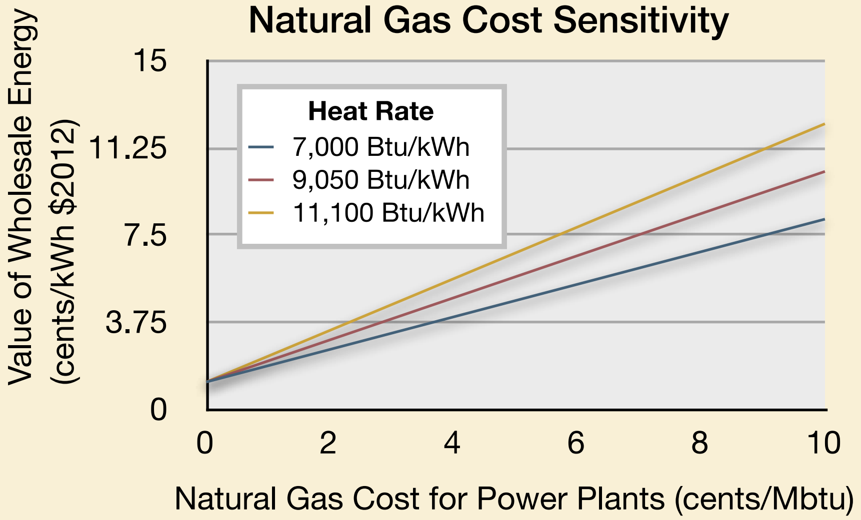
* = value energy savings that result from avoided energy losses

Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

ENERGY (CONT'D)

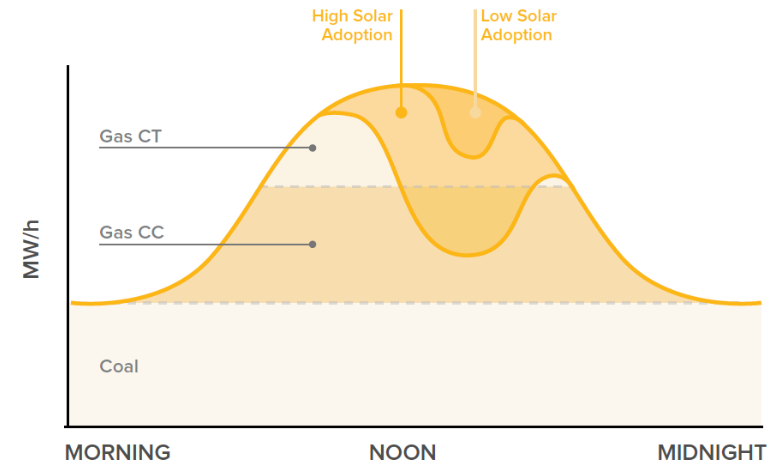
SENSITIVITIES TO KEY INPUT ASSUMPTIONS

Electric Generation: Natural Gas Cost Sensitivity



INSIGHTS & IMPLICATIONS

- Accurately defining the marginal resource that DPV displaces requires an increasingly sophisticated approach as DPV penetration increases.



The resources that DPV displaces depends on the dispatch order of other resources, when the solar is generated, and how much is generated.

More accurate, more complex

Marginal Resource Characterization	Pros	Cons
Single power plant assumed to be on the margin (typically gas CC)	Simple; often sufficiently accurate at low solar penetrations	Not necessarily accurate at higher penetrations or in all jurisdictions
Plant on the margin on-peak/plant on the margin off-peak	More accurately captures differences in energy value reflected in merit-order dispatch	Not necessarily accurate at higher penetrations or in all jurisdictions
Hourly dispatch or market assessment to determine marginal resource in every hour	Most accurate, especially with increasing penetration	More complex analysis required; solar shape and load shape must be from same years

- Taking a more granular approach to determining energy value also requires a more detailed characterization of DPV's generation profile. It's also critical to use solar and load profiles from the same year(s), to accurately reflect weather drivers and therefore generation and demand correlation.

- In cases where DPV is displacing natural gas, the NYMEX natural gas forward market is a reasonable basis for a natural gas price forecast, adjusted appropriately for delivery to the region in question. It is not apparent from studies reviewed what the most effective method is for escalating prices beyond the year in which the NYMEX market ends.

LOOKING FORWARD

As renewable and distributed resource (not just DPV) penetration increases, those resources will start to impact the underlying load shape differently, requiring more granular analysis to determine energy value.

SYSTEM LOSSES

VALUE OVERVIEW

System losses are a derivation of energy losses, the value of the additional energy generated by central plants that is lost due to inherent inefficiencies (electrical resistance) in delivering energy to the customer via the transmission and distribution system. Since DPV generates energy at or near the customer, that additional energy is not lost. Energy losses act as a magnifier of value for capacity and environmental benefits, since avoided energy losses result in lower required capacity and lower emissions.

APPROACH OVERVIEW

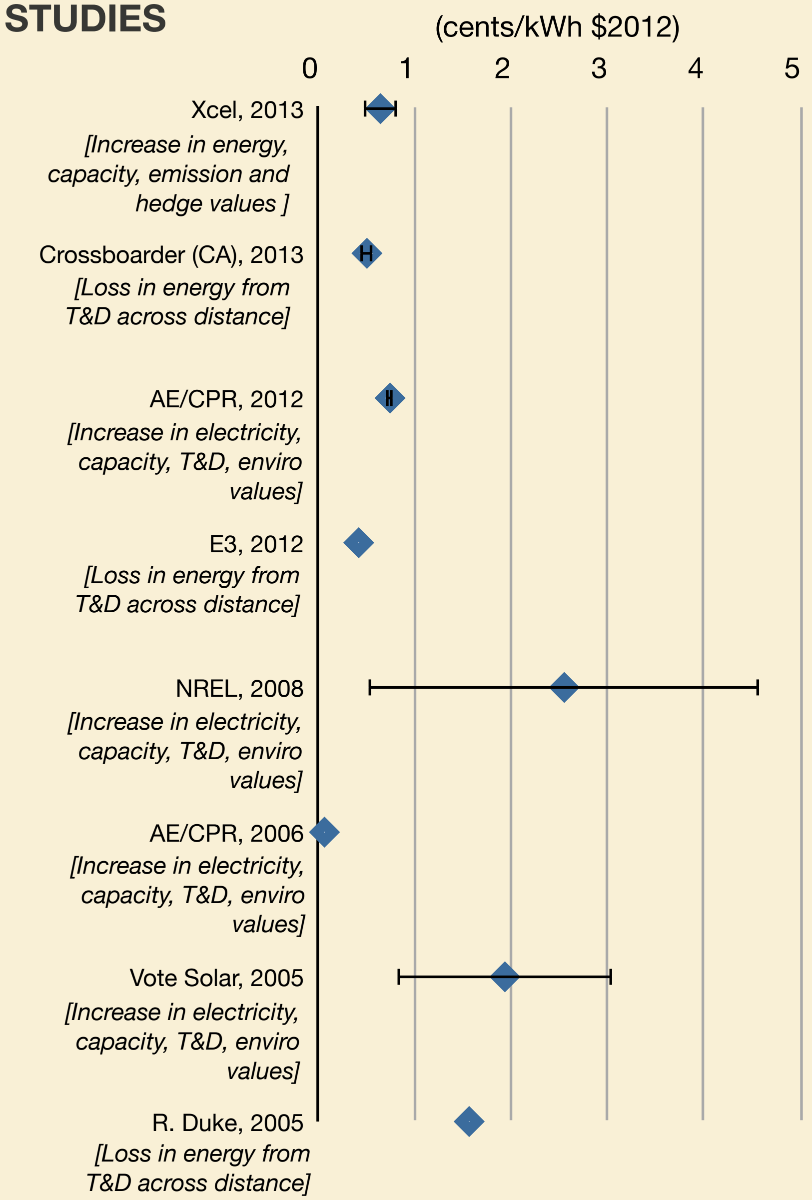
Losses are generally recognized as a value, although there is significant variation around what type of losses are included and how they are assessed. Losses usually represent a small but not insignificant source of value, although some studies report comparatively high values.

- Energy lost in delivery magnifies the value of other benefits, including capacity and environment.
- Calculate loss factor(s) (amount of loss per unit of energy delivered) based on modeled or observed data.

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Congestion** - Because energy losses are proportional to the inverse of current squared, the higher the utilization of the transmission & distribution system, the greater the energy losses.
  - **Solar characterization**—The timing, quantity, and geographic location of DPV, and therefore its coincidence with delivery system utilization, impacts losses.
- **Input Assumptions:**
  - **Losses** - Some studies estimate losses by applying loss factors based on actual observation, others develop theoretical loss factors based on system modeling. Further, some utility systems have higher losses than others.
- **Methodologies:**
  - **Types of losses recognized** - Most studies recognize energy losses, some recognize capacity losses, and a few recognize environmental losses.
  - **Adder vs. stand-alone value** - There is no common approach to whether losses are represented as stand-alone values (for example, NREL 2008 and E3 2012) or as adders to energy, capacity, and environmental value (for example, Crossborder (AZ) 2013 and APS 2013), complicating comparison across studies.
  - **Temporal & geographic characterization** - Some studies apply an average loss factor to all energy generated by DPV, others apply peak/off-peak factors, and others conduct hourly analysis. Some studies also reflect geographically-varying losses.

SYSTEM LOSSES BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES

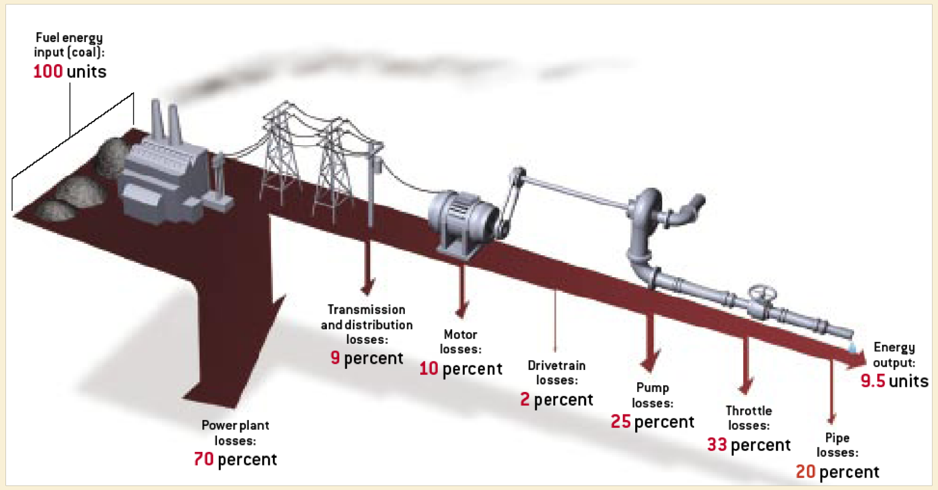


Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

SYSTEM LOSSES (CONT'D)

WHAT ARE SYSTEM LOSSES?

Some energy generated at a power plant is lost as it travels through the transmission and distribution system to the customer. As shown in the graphic below, more than 90% of primary energy input into a power plant is lost before it reaches the end use, or stated in reverse, for every one unit of energy saved or generated close to where it is needed, 10 units of primary energy are saved.



For the purposes of this discussion document, relevant losses are those driven by inherent inefficiencies (electrical resistance) in the transmission and distribution system, not those in the power plant or customer equipment. Energy losses are proportional to the square of current, and associated capacity benefit is proportional to the square of reduced load.

INSIGHTS & IMPLICATIONS

- All relevant system losses—energy, capacity, and environment—should be assessed.
- Because losses are driven by the square of current, losses are significantly higher during peak periods. Therefore, when calculating losses, it's critical to reflect marginal losses, not just average losses.
- Whether or not losses are ultimately represented as an adder to an underlying value or as a stand-alone value, they are generally calculated separately. Studies should distinguish these values from the underlying value for transparency and to drive consistency of methodology.

LOOKING FORWARD

Losses will change over time as the loading on transmission and distribution lines changes due to a combination of changing customer demand and DPV generation.

GENERATION CAPACITY

VALUE OVERVIEW

Generation capacity value is the amount of central generation capacity that can be deferred or avoided due to the installation of DPV. Key drivers of value include (1) DPV's effective capacity and (2) system capacity needs.

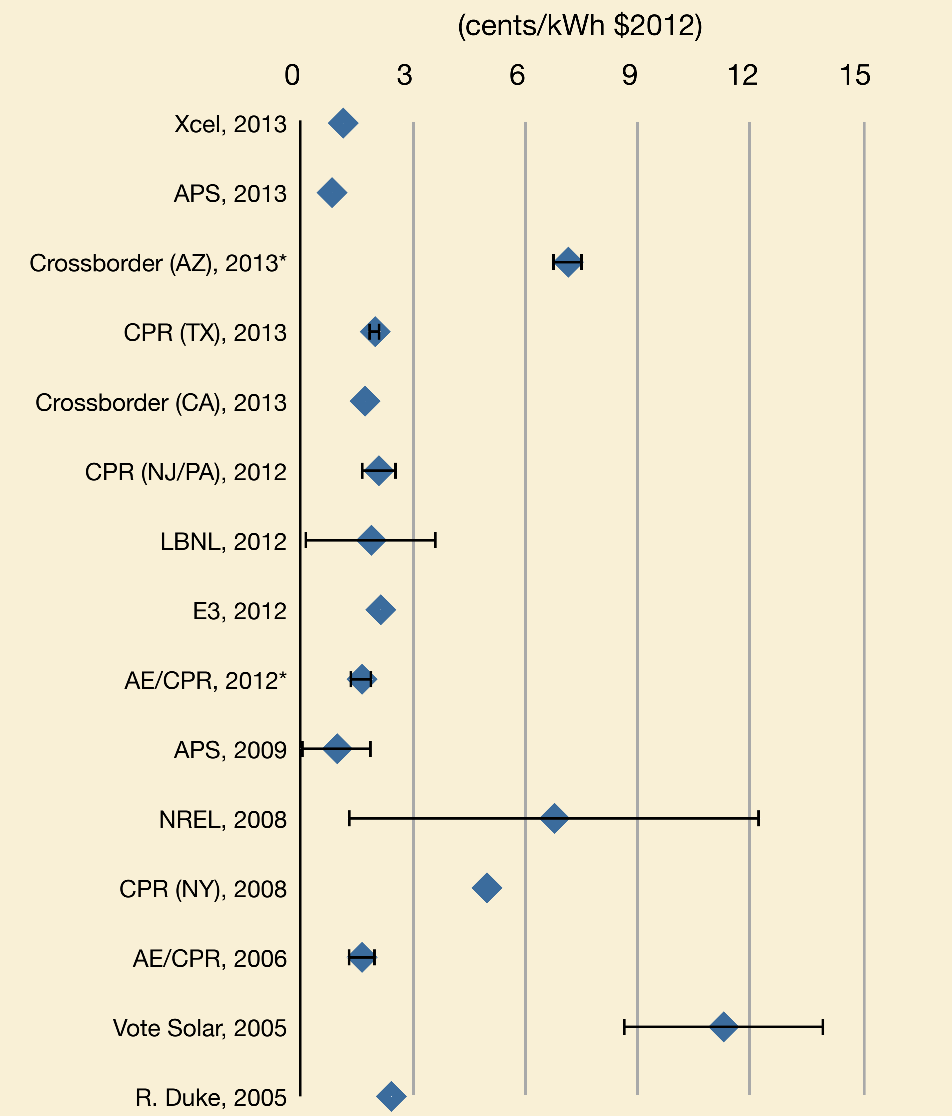
APPROACH OVERVIEW

Generation capacity value is the avoided cost of the marginal capacity resource, most frequently assumed to be a gas combustion turbine, and based on a calculation of DPV effective capacity, most commonly based on effective load carrying capability (ELCC).

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Load growth/generation capacity investment plan** - The ability to avoid or defer generation capacity depends on underlying load growth and how much additional capacity will be needed, at what time.
  - **Solar characteristics** - The timing, quantity, and geographic location of DPV, and therefore its coincidence with system peak, impacts DPV's effective capacity.
  - **Market structure** - Some ISOs and states value capacity and energy separately, whereas some ISOs only have energy markets but no capacity markets. ISOs with only energy markets may reflect capacity value as part of the energy price. For California, E3 2012 calculates capacity value based on "net capacity cost"—the annual fixed cost of the marginal unit minus the gross margins captured in the energy and ancillary service market.
- **Input Assumptions:**
  - **Marginal resource** - Most studies assume that a gas combustion turbine, or occasionally a gas combined cycle, is the generation capacity resource that could be deferred. What this resource is and its associated capital and fixed O&M costs are a primary determinant of capacity value.
- **Methodologies:**
  - **Formulation of DPV effective capacity** - There is broad agreement that DPV's effective capacity is most accurately determined using an ELCC approach, which measures the amount of additional load that can be met with the same level of reliability after adding DPV. There is some variation across studies in ELCC results, likely driven by a combination of underlying solar resource profile and ELCC calculation methodology. The approach to effective capacity is sometimes different when considering T&D capacity.
  - **Minimum DPV required to defer capacity** - Some studies (for example, Crossborder (AZ) 2013) credit every unit of effective DPV capacity with capacity value, whereas others (for example, APS 2009) require a certain minimum amount of solar be installed to defer an actual planned resource before capacity value is credited.
  - **Inclusion of losses** - Some studies include capacity losses as an adder to capacity value rather than as a stand-alone benefit.

GENERATION CAPACITY BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES

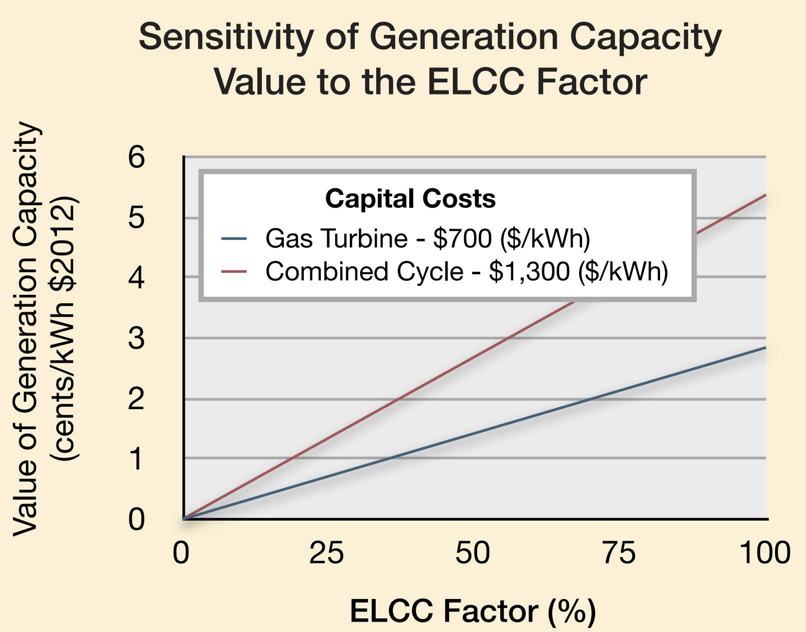


* = value includes generation capacity savings that result from avoided energy losses

Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

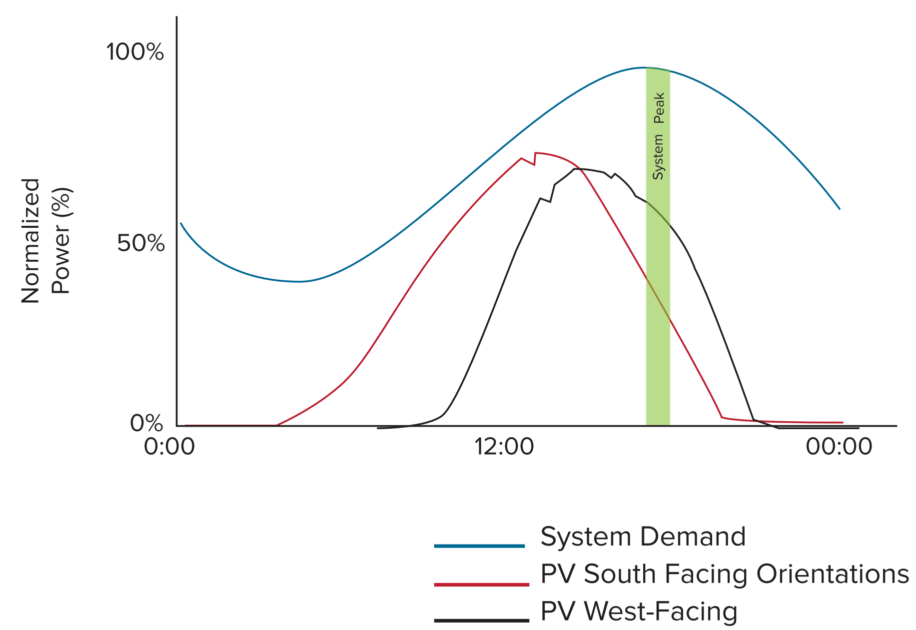
GENERATION CAPACITY (CONT'D)

SENSITIVITIES TO KEY INPUT ASSUMPTIONS



INSIGHTS & IMPLICATIONS

- Generation capacity value is highly dependent on the correlation of DPV generation to load, so it's critical to accurately assess that correlation using an ELCC approach, as all studies reviewed do. However, varying results indicate possible different formulations of ELCC.



While effective load carrying capacity (ELCC) assesses DPV's contribution to reliability throughout the year, generation capacity value will generally be higher if DPV output is more coincident with peak.

- The value also depends on whether new capacity is needed on the system, and therefore whether DPV defers new capacity. It's important to assess what capacity would have been needed without any additional, expected, or planned DPV.

- Generation capacity value is likely to change significantly as more DPV, and more renewable and distributed resources of all kinds are added to the system. Some amount of DPV can displace the most costly resources in the capacity stack, but increasing amounts of DPV could begin to displace less costly resources. Similarly, the underlying load shape, and therefore even the concept of a peak could begin to shift.

LOOKING FORWARD

Generation capacity is one of the values most likely to change, most quickly, with increasing DPV penetration. Key reasons for this are (1) increasing DPV penetration could have the effect of pushing the peak to later in the day, when DPV generation is lower, and (2) increasing DPV penetration will displace expensive peaking resources, but once those resources are displaced, the cost of the next resource may be lower. Beyond DPV, it's important to note that a shift towards more renewables could change the underlying concept of a daily or seasonal peak.

TRANSMISSION & DISTRIBUTION CAPACITY

Electricity Innovation Lab
ROCKY MOUNTAIN INSTITUTE

VALUE OVERVIEW

The transmission and distribution (T&D) capacity value is a measure of the net change in T&D infrastructure as a result of the addition of DPV. Benefits occur when DPV is able to meet rising demand locally, relieving capacity constraints upstream and deferring or avoiding transmission or distribution upgrades. Costs are incurred when additional transmission or distribution investment are necessary to support the addition of DPV, which could occur when the amount of solar energy exceeds the demand in the local area and increases needed line capacity.

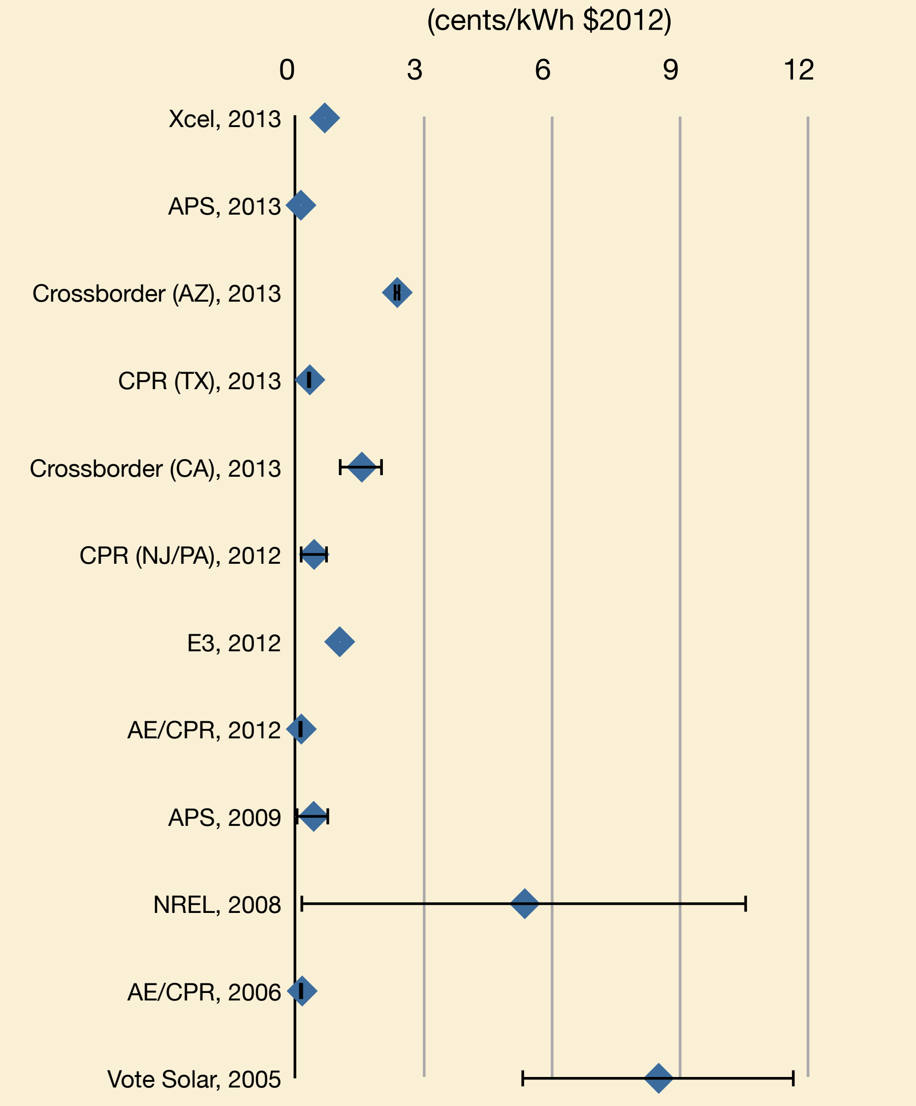
APPROACH OVERVIEW

The net value of deferring or avoiding T&D investments is driven by rate of load growth, DPV configuration and energy production, peak coincidence and effective capacity. Given the site specific nature of T&D, especially distribution, there can be significant range in the calculated value of DPV. Historically low penetrations of DPV has meant that studies have primarily focused on analyzing the ability of DPV to defer transmission or distribution upgrades and have not focused on potential costs, which would likely not arise until greater levels of penetration. Studies typically determine the T&D capacity value based on the capital costs of planned expansion projects in the region of interest. However, the granularity of analysis differs.

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Locational characteristics** - Transmission and distribution infrastructure projects are inherently site-specific and their age, service life, and use can vary significantly. Thus, the need, size and cost of upgrades, replacement or expansion correspondingly vary.
  - **Projected load growth/T&D capacity investment plan** - Expected rate of demand growth affects the need, scale and cost of T&D upgrades and the ability of DPV to defer or offset anticipated T&D expansions. The rate of growth of DPV would need to keep pace with the growth in demand, both by order of magnitude and speed.
  - **Solar characteristics** - The timing of energy production from DPV and its coincidence with system peaks (transmission) and local peaks (distribution) drive the ability of DPV to contribute as effective capacity that could defer or displace a transmission or distribution capacity upgrade.
  - **The length of time the investment is deferred** -The length of time that T&D can be deferred by the installation of DPV varies by the rate of load growth, the assumed effective capacity of the DPV, and DPV's correlation with peak. The cost of capital saved will increase with the length of deferment.
- **Input Assumptions:**
  - **T&D investment plan characteristics -** Depending upon data available and depth of analysis, studies vary by the level of granularity in which T&D investment plans were assessed–project by project or broader generalizations across service territories.
- **Methodologies:**
  - **Accrual of capacity value to DPV** - One of the most significant methodological differences is whether DPV has incremental T&D capacity value in the face of "lumpy" T&D investments (see implications and insights).
  - **Losses -** Some studies include the magnified benefit of deferred T&D capacity due to avoided losses within the calculation of T&D value, while others itemize line losses separately.

T&D CAPACITY BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES

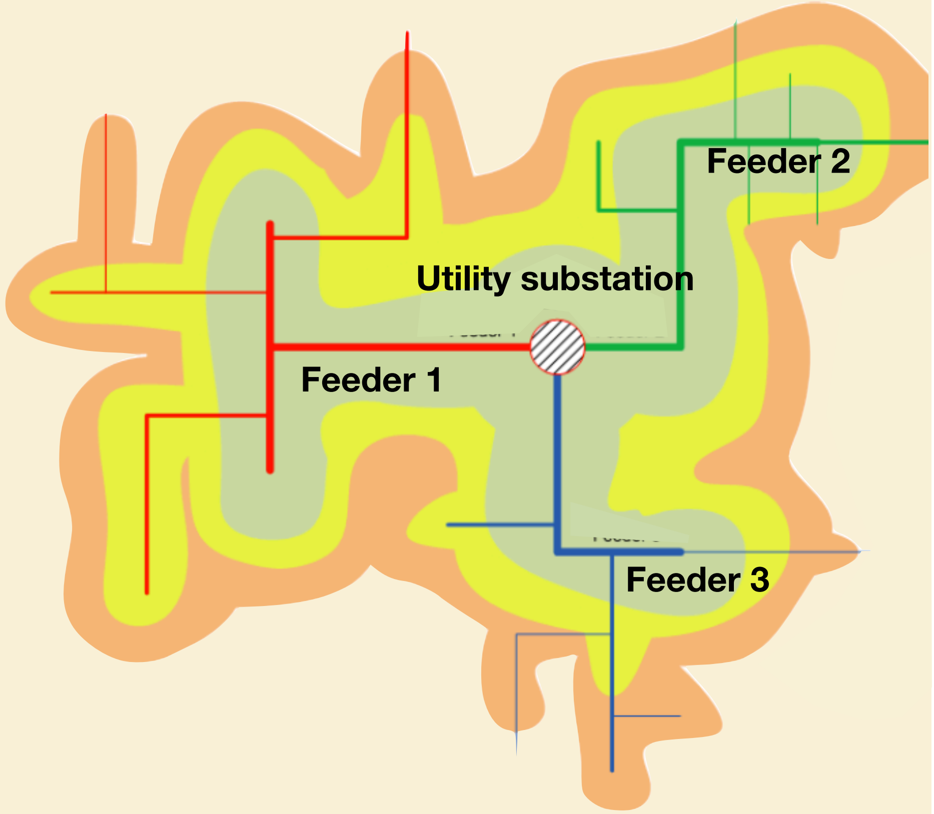


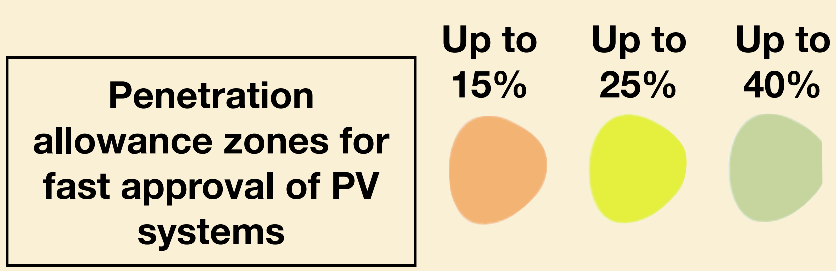
* = value includes T&D capacity savings that result from avoided energy losses

Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

TRANSMISSION & DISTRIBUTION CAPACITY (CONT'D)

LOCATIONAL CONSIDERATIONS AT THE DISTRIBUTION LEVEL





Adapted from Coddington, M. et al, *Updating Interconnection Screens for PV System Integration*

INSIGHTS & IMPLICATIONS

- Strategically targeted DPV deployment can relieve T&D capacity constraints by providing power close to demand and potentially deferring capacity investments, but dispersed deployment has been found to provide less benefit. Thus, the ability to access DPV's T&D deferral value will require proactive distribution planning that incorporates distributed energy resources, such as DPV, into the evaluation.

- The values of T&D are often grouped together, but they are unique when considering the potential costs and benefits that result from DPV.
  - While the ability to defer or avoid transmission is still locational dependent, it is less so than distribution. Transmission aggregates disparate distribution areas and the effects of additional DPV at the distribution level typically require less granular data and analysis.
  - The distribution system requires more geographically specific data that reflects the site specific characteristics such as local hourly PV production and correlation with local load.

- There are significantly differing approaches on the ability of DPV to accrue T&D capacity deferment or avoidance value that require resolution:
  - How should DPV's capacity deferral value be estimated in the face of "lumpy" T&D investments? While APS 2009 and APS 2013 posit that a minimum amount of solar must be installed to defer capacity before credit is warranted, Crossborder (AZ) 2013 credits every unit of reliable capacity with capacity value.
  - What standard should be applied to estimate PV's ability to defer a specific distribution expansion project? While most studies use ELCC to determine effective capacity, APS 2009 and APS 2013 use the level at which there is a 90% confidence of that amount of generation.

LOOKING FORWARD

Any distributed resources, not just DPV, that can be installed near the end user to reduce use of, and congestion along, the T&D network could potentially provide T&D value. This includes technologies that allow energy to be used more efficiently or at different times, reducing the quantity of electricity traveling through the T&D network (especially during peak hours).

GRID SUPPORT SERVICES

VALUE OVERVIEW

Grid support services, also commonly referred to as ancillary services (AS) in wholesale energy markets, are required to enable the reliable operation of interconnected electric grid systems, including operating reserves, reactive supply and voltage control; frequency regulation; energy imbalance; and scheduling.

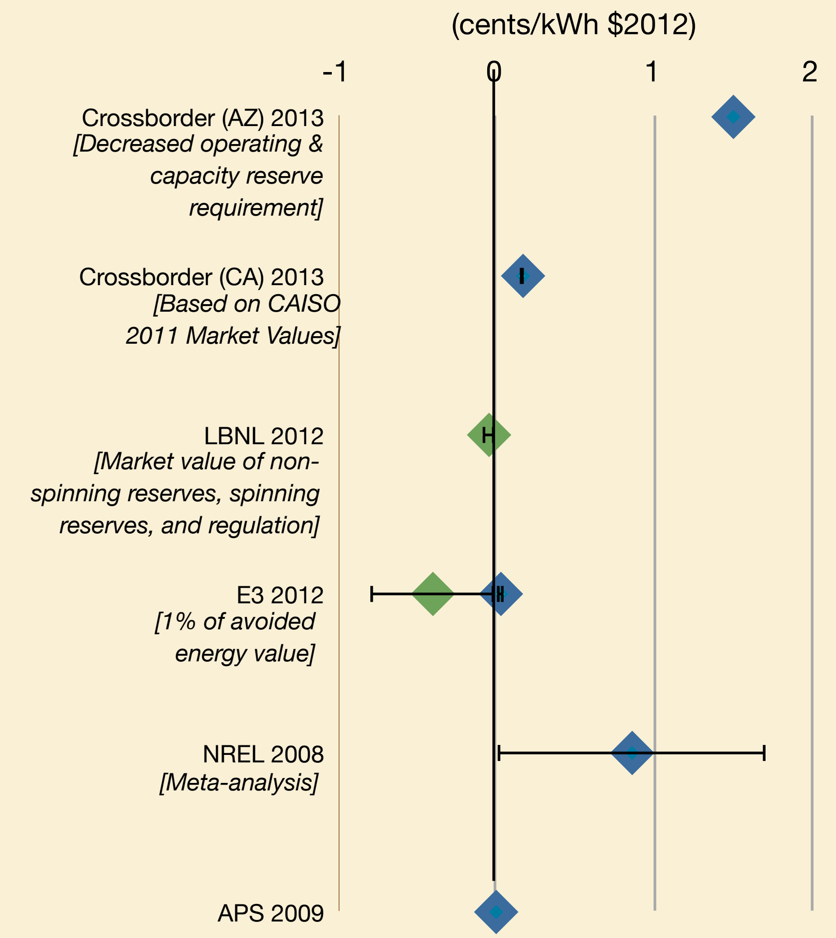
APPROACH OVERVIEW

There is significant variation across studies on the impact DPV will have on the addition or reduction in the need for grid support services and the associated cost or benefit. Most studies focus on the cost DPV could incur in requiring additional grid support services, while a minority evaluate the value DPV could provide by reducing load and required reserves or the AS that DPV could provide when coupled with other technologies. While methodologies are inconsistent, the approaches generally focus on methods for calculating changes in necessary operating reserves, and less precision or rules of thumb are applied to the remainder of AS, such as voltage regulation. Operating reserves are typically estimated by determining the reliable capacity for which DPV can be counted on to provide capacity when demanded over the year.

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Reliability standards and market rules** - The standards and rules for reliability that govern the requirements for grid support services and reserve margins differ. These standards directly impact the potential net value of adding DPV to the system.
  - **Availability of ancillary services market** - Where wholesale electricity markets exist, the estimated value is correlated to the market prices of AS.
  - **Solar characteristics** - The timing of energy production from DPV and it's coincidence with system peaks differs locationally.
  - **Penetration of DPV** - As PV penetrations increase, the value of its reliable capacity decreases and, under standard reliability planning approaches, would increase the amount of system reserves necessary to maintain reliable operations.
  - **System generation mix** - The performance characteristics of the existing generation mix, including the generators ability to respond quickly by increasing or decreasing production, can significantly change the supply value of ancillary services and the value.
- **Methodologies:**
  - **Effective capacity of DPV** - The degree that DPV can be depended on to provide capacity when demanded has a direct effect on the amount of operating reserves that the rest of the system must supply. The higher the "effective capacity," the less operating reserves necessary.
  - **Correlating reduced load with reduced ancillary service needs** - Crossborder (AZ) 2013 calculated a net benefit of DPV based on 1) load reduction & reduced operating reserve requirements; 2) peak demand reduction and utility capacity requirements.
  - **Potential of DPV to provide grid support with technology coupling** - While the primary focus across studies was the impact DPV would have on the need for additional AS, NREL 2008 & AE/CPR 2006 both noted that DPV could provide voltage regulation with smart inverters were installed.

GRID SUPPORT SERVICES BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

GRID SUPPORT SERVICES (CONT'D)

Grid Support Services	The potential for DPV to provide grid support services (with technology modifications)
REACTIVE SUPPLY AND VOLTAGE CONTROL	**(+/-)** PV with an advanced inverter can inject/consume VARs, adjusting to control voltage
FREQUENCY REGULATION	**(+/-)** Advanced inverters can adjust output frequency; standard inverters may
ENERGY IMBALANCE	**(+/-)** If PV output < expected, imbalance service is required. Advanced inverters could adjust output to provide imbalance
OPERATING RESERVES	**(+/-)** Additional variability and uncertainty from large penetrations of DPV may introduce operations forecast error and increase the need for certain types of reserves; however, DPV may also reduce the amount of load served by central generation, thus, reducing needed reserves.
SCHEDULING / FORECASTING	**(-)** The variability of the solar resource requires additional forecasting to reduce uncertainty

INSIGHTS & IMPLICATIONS

- As with large scale renewable integration, there is still controversy over determining the net change in "ancillary services due to variable generation and much more controversy regarding how to allocate those costs between specific generators or loads." (LBNL 2012)
- Areas with wholesale AS markets enable easier quantification of the provision of AS. Regions without markets have less standard methodologies for quantifying the value of AS.
- One of the most significant differences in reviewed methodological approaches is whether the necessary amount of operating reserves, as specified by required reserve margin, decreases by DPV's capacity value (as determined by ELCC, for example). Crossborder (CA) 2013, E3 2012 and Vote Solar 2005 note that the addition of DPV reduces load served by central generation, thus allowing utilities to reduce procured reserves. Additional analysis is needed to determine whether the required level of reserves should be adjusted in the face of a changing system.
- Studies varied in their assessments of grid support services. APS 2009 did not expect DPV would contribute significantly to spinning or operating reserves, but predicted regulation reserves could be affected at high penetration levels.

LOOKING FORWARD

Increasing levels of distributed energy resources and variable renewable generation will begin to shift both the need for grid support services as well as the types of assets that can and need to provide them. The ability of DPV to provide grid support requires technology modifications or additions, such as advanced inverters or storage, which incur additional costs. However, it is likely that the net value proposition will increase as technology costs decrease and the opportunity (or requirements) to provide these services increase with penetration.

FINANCIAL: FUEL PRICE HEDGE

VALUE OVERVIEW
DPV produces roughly constant-cost power compared to fossil fuel generation, which is tied to potentially volatile fuel prices. DPV can provide a “hedge” against price volatility, reducing risk exposure to utilities and customers.

APPROACH OVERVIEW
More than half the studies reviewed acknowledge DPV’s fuel price hedge benefit, although fewer quantify it and those that do take different, although conceptually similar, approaches.

- In future years when natural gas futures market prices are available, using those NYMEX prices to develop a natural gas price forecast should include the value of volatility.
- In future years beyond when natural gas futures market prices are available, estimate natural gas price and volatility value separately. Differing approaches include:
    - Escalating NYMEX prices at a constant rate, under the assumption that doing so would continue to reflect hedge value (Crossborder (AZ) 2013); or
    - Estimating volatility hedge value separately as the value or an option/swap, or as the actual price adder the utility is incurring now to hedge gas prices (CPR (NJ/PA 2012), NREL 2008).

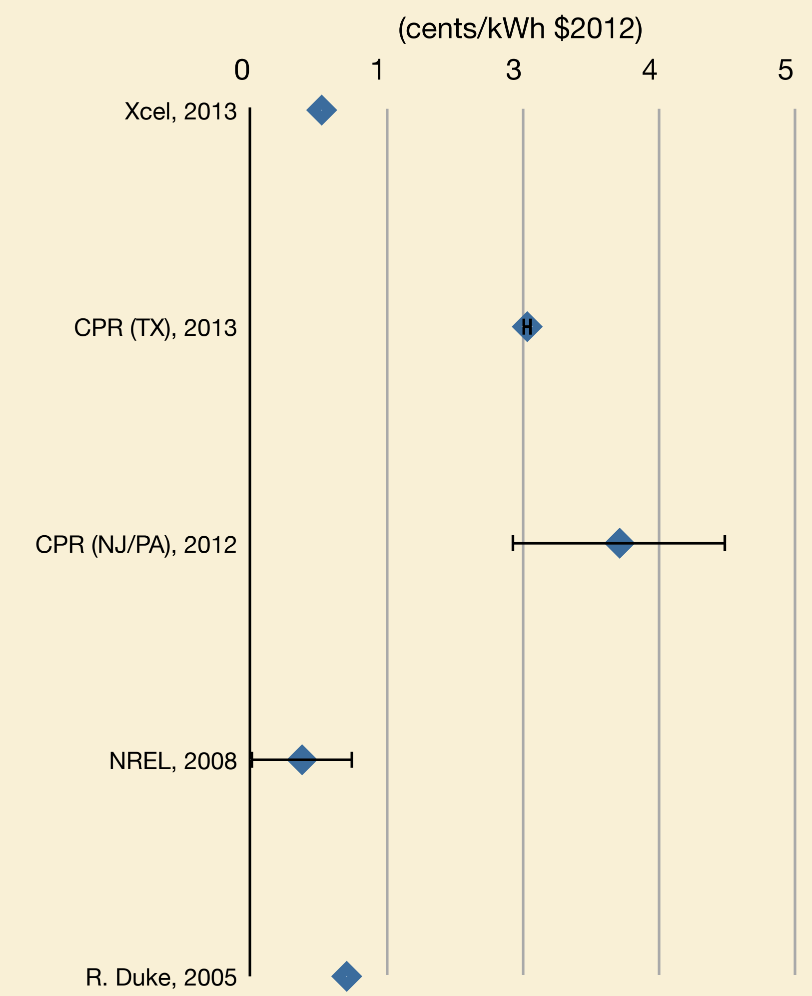
WHY AND HOW VALUES DIFFER

- **System Context:**
    - **Marginal resource characterization** - What resource is on the margin, and therefore how much fuel is displaced varies.
    - **Exposure to fuel price volatility** - Most utilities already hedge some portion of their natural gas purchases for some period of time in the future.
- **Methodologies:**
    - **Approach to estimating value** - While most studies agree that NYMEX futures prices are an adequate reflection of volatility, there is no largely agreed upon approach to estimating volatility beyond when those prices are available.

INSIGHTS & IMPLICATIONS

- NYMEX futures market prices are an adequate reflection of volatility in the years in which it operates.
- Beyond that, volatility should be estimated, although there is no obvious best practice. Further work is required to develop an approach that accurately measures hedge value.

FUEL PRICE HEDGE BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

FINANCIAL: MARKET PRICE RESPONSE

VALUE OVERVIEW

The addition of DPV, especially at higher penetrations, can affect the market price of electricity in a particular market or service territory. These market price effects span energy and capacity values in the short term and long term, all of which are interrelated. Benefits can occur as DPV provides electricity close to demand, reducing the demand for centrally-supplied electricity and the fuel powering those generators, thereby lowering electricity prices and potentially fuel commodity prices. A related benefit is derived from the effect of DPV's contribution at higher penetrations to reshaping the load profile that central generators need to meet. Depending upon the correlation of DPV production and load, the peak demand could be reduced and the marginal generator could be more efficient and less costly, reducing total electricity cost. However, these benefits could potentially be reduced in the longer term as energy prices decline, which could result in higher demand. Additionally, depressed prices in the energy market could have a feedback effect by raising capacity prices.

APPROACH OVERVIEW

While several studies evaluate a market price response of DPV, distinct approaches were employed by E3 2012, CPR (NJ/PN) 2012, and NREL 2008.

WHY AND HOW VALUES DIFFER

- **Methodologies:**
  - **Considering market price effects of DPV in the context of other renewable technologies** - E3 2012 incorporated market price effect in its high penetration case by adjusting downward the marginal value of energy that DPV would displace. However, for the purposes of the study, E3 2012 did not add this as a benefit to the avoided cost because they "assume the market price effect would also occur with alternative approaches to meeting [CA's] RPS."
  - **Incorporating capacity effects** -
    - E3 2012 represented a potential feedback effect between the energy and capacity by assuming an energy market calibration factor. That is, it assumes that, in the long run, the CCGT's energy market revenues plus the capacity payment equal the fixed and variable costs of the CCGT. Therefore, a CCGT would collect more revenue through the capacity and energy markets than is needed to cover its costs, and a decrease in energy costs would result in a relative increase in capacity costs.
    - CPR (NJ/PA) 2012 incorporates market price effect "by reducing demand during the high priced hours [resulting in] a cost savings realized by all consumers." They note "that further investigation of the methods may be warranted in light of two arguments...that the methodology does address induced increase in demand due to price reductions, and that it only addresses short-run effects (ignoring the impact on capacity markets)."

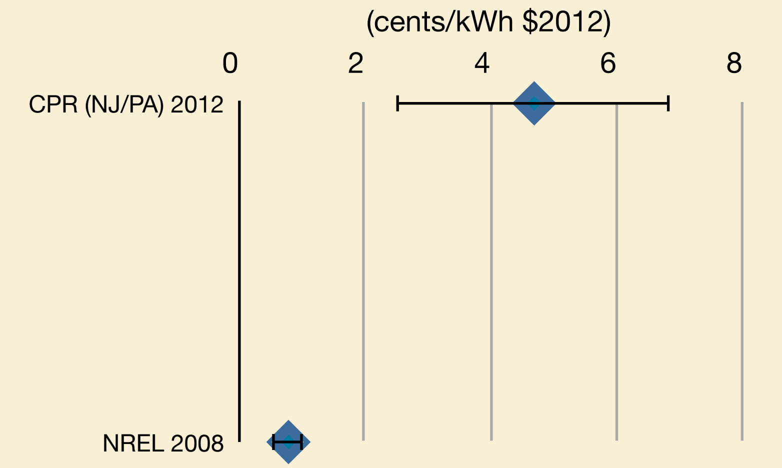
INSIGHTS & IMPLICATIONS

- The market price reduction value only assesses the initial market reaction of reduced price, not subsequent market dynamics (e.g. increased demand in response to price reductions, or the impact on the capacity market), which has to be studied and considered, especially in light of higher penetrations of DPV.

LOOKING FORWARD

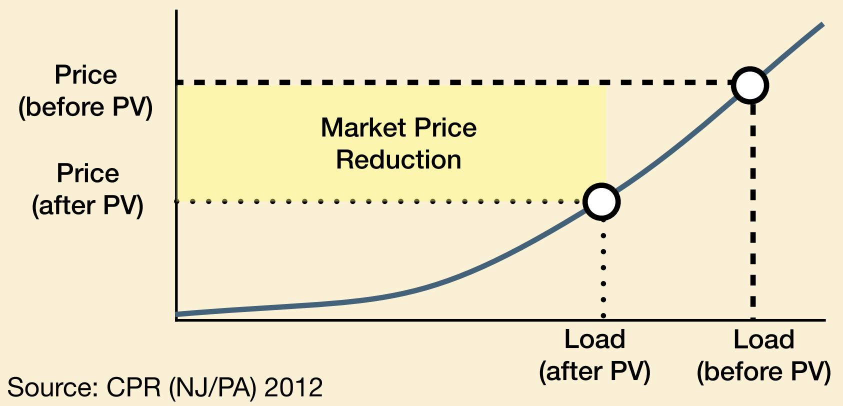
Technologies powered by risk-free fuel sources (such as wind) and technologies that increase the efficiency of energy use and decrease consumption would also have similar effects.

MARKET PRICE RESPONSE BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs. Also, E3 2012 is not included in this chart because this study did not provide an itemized value for market price response,

MARKET PRICE VS. LOAD



Source: CPR (NJ/PA) 2012

SECURITY: RELIABILITY AND RESILIENCY

VALUE OVERVIEW

The grid security value that DPV could provide is attributable to three primary factors, the last of which would require coupling DPV with other technologies to achieve the benefit:

1) The potential to reduce outages by reducing congestion along the T&D network. Power outages and rolling blackouts are more likely when demand is high and the T&D system is stressed.
2) The ability to reduce large-scale outages by increasing the diversity of the electricity system's generation portfolio with smaller generators that are geographically dispersed.
3) The benefit to customers to provide back-up power sources available during outages through the combination of PV, control technologies, inverters and storage.

APPROACH OVERVIEW

While there is general agreement across studies that integrating DPV near the point of use will decrease stress on the broader T&D system, most studies do not calculate a benefit due to the difficulty of quantification. CPR 2012 and 2011 did represent the value as the value of avoided outages based on the total cost of power outages to the U.S. each year, and the perceived ability of DPV to decrease the incidence of outages.

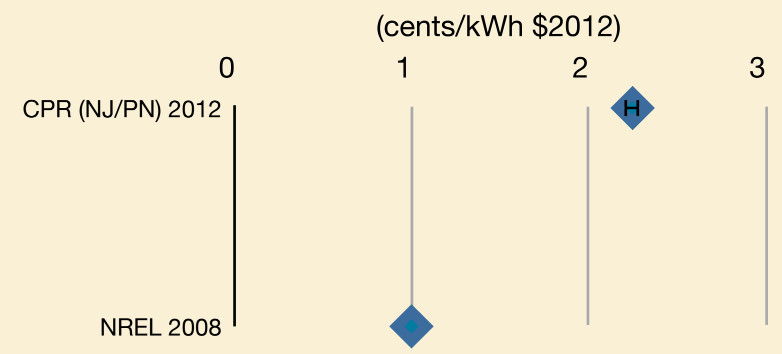
INSIGHTS & IMPLICATIONS

- The value of increased reliability is significant, but there is a need to quantify and demonstrate how much value can be provided by DPV. Rules-of-thumb assumptions and calculations for security impacts require significant analysis and review.
- Opportunities to leverage combinations of distributed technologies to increase customer reliability are starting to be tested. The value of DPV in increasing suppling power during outages can only be realized if DPV is coupled with storage and equipped with the capability to island itself from the grid, which come at additional capital cost.

LOOKING FORWARD

Any distributed resources that can be installed near the end user to reduce use of, and congestion along, the T&D network could potentially reduce transmission stress. This includes technologies that allow energy to be used more efficiently or at different times, reducing the quantity of electricity traveling through the T&D network (especially during peak hours). Any distributed technologies with the capability to be islanded from the grid could also play a role.

RELIABILITY AND RESILIENCY BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

Disruption Value* Range by Sector
(cents/kWh $2012)

Sector	Min	Max
Residential	0.028	0.41
Commercial	11.77	14.40
Industrial	0.4	1.99

Source: The National Research Council, 2010

*Disruption value is a measure of the damages from outages and power-quality events based on the increased probability of these events occurring with increasing electricity consumption.

ENVIRONMENT: CARBON DIOXIDE

VALUE OVERVIEW

The benefits of reducing carbon emissions include (1) reducing future compliance costs, carbon taxes, or other fees, and (2) mitigating the heath and ecosystem damages potentially caused by climate change.

APPROACH OVERVIEW

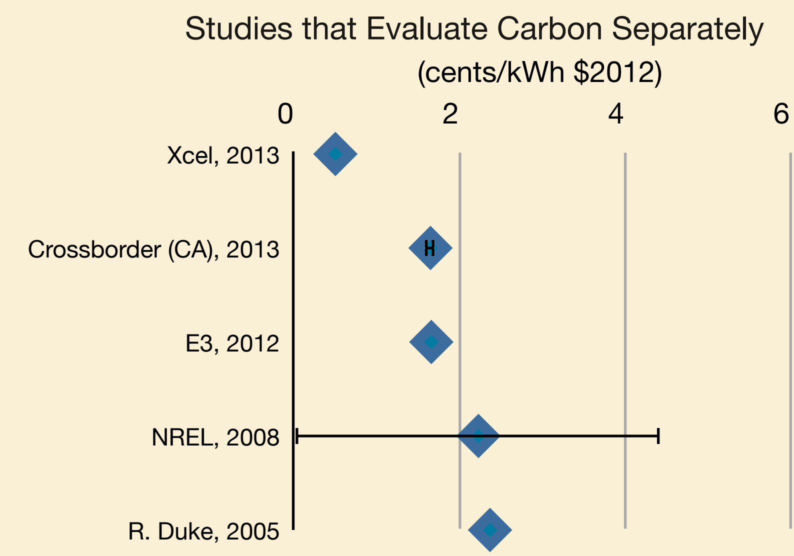
By and large, studies that addressed carbon focused on the compliance costs or fees associated with future carbon emissions, and conclude that carbon reduction can increase DPV's value by more than two cents per kilowatt-hour, depending heavily on the price placed on carbon. While there is some agreement that carbon reduction provides value and on the general formulation of carbon value, there are widely varying assumptions, and not all studies include carbon value.

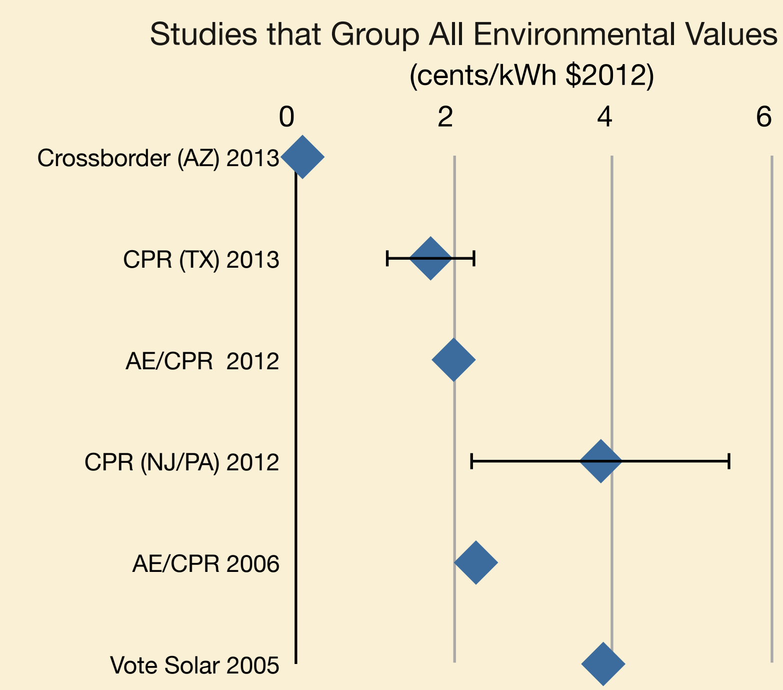
Carbon reduction benefit is the amount of carbon displaced times the price of reducing a ton of carbon. The amount of carbon displaced is directly linked to the amount of energy displaced, when it is displaced, and the carbon intensity of the resource being displaced.

WHY AND HOW VALUES DIFFER

- **System Context:**
  - **Marginal resource characterization** - Different resources may be on the margin in different regions or with different solar penetrations. Carbon reduction is significantly different if energy is displaced from coal, gas combined cycles, or gas combustion turbines.
- **Input Assumptions:**
  - **Value of carbon reduction** - Studies have widely varying assumptions about the price or carbon. Some studies base price on reported prices in European markets, others on forecasts based on policy expectations, others on a combination. The increased uncertainty around U.S. Federal carbon legislation has made price estimates more difficult.
  - **Heat rates of marginal resources** - The assumed efficiency of the marginal power plant is directly correlated to amount of carbon displaced by DPV.
- **Methodologies:**
  - **Adder vs. stand-alone value** - There is no common approach to whether carbon is represented as a stand-alone value (for example, NREL 2008 and E3 2012) or as an adder to energy value (for example, APS 2013).
  - **Marginal resource characterization** - Just as with energy (which is directly linked to carbon reduction), studies take one of three general approaches: (1) DPV displaces energy from a gas plant, generally a combined cycle, (2) DPV displaces energy from one type of plant (generally a combined cycle) off-peak and a different type of plant (generally a combustion turbine) on-peak, (3) DPV displaces whatever resource is on the margin during every hour of the year, based on a dispatch analysis.

ENVIRONMENTAL BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES

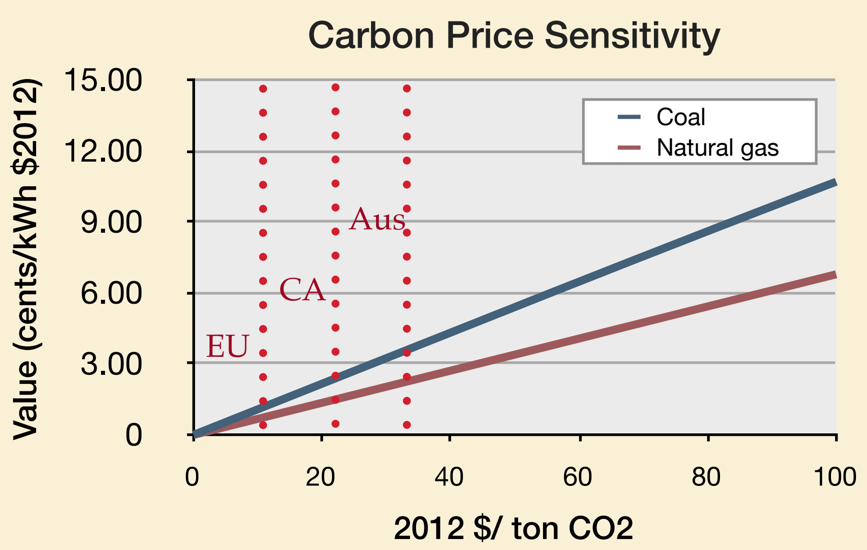


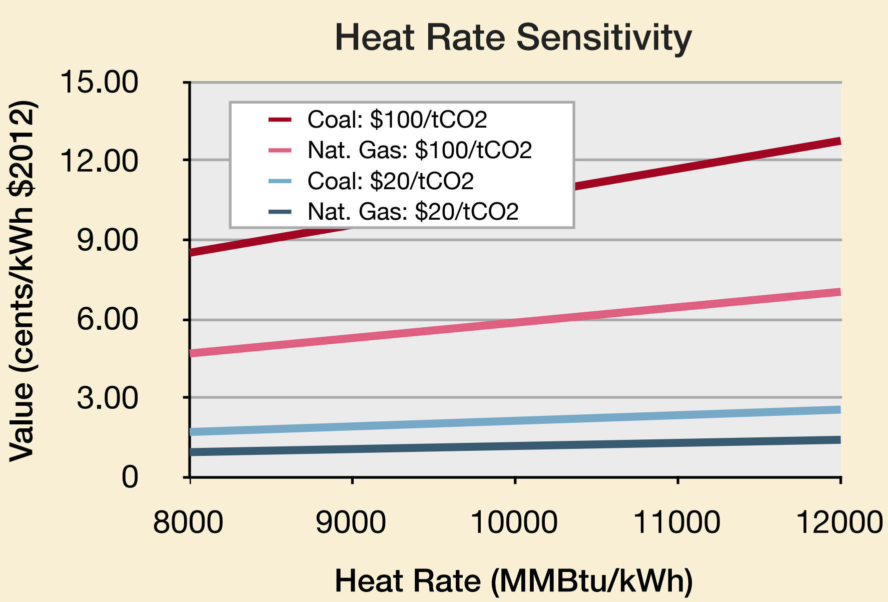


Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.

ENVIRONMENT: CARBON DIOXIDE
(CONT'D)

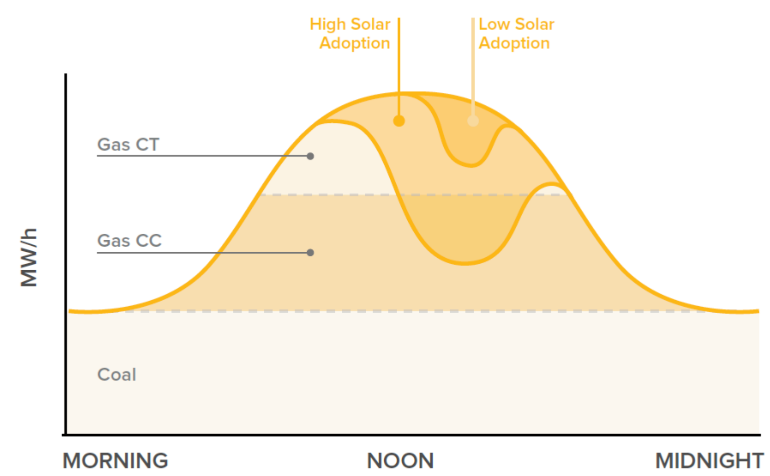
SENSITIVITY TO KEY INPUT ASSUMPTIONS





INSIGHTS & IMPLICATIONS

- Just as with energy value, carbon value depends heavily on what the marginal resource is that is being displaced. The same determination of the marginal resource should be used to drive both energy and carbon values.



The amount of carbon DPV displaces depends on the dispatch order of other resources, when the solar is generated, and how much is generated.

- While there is little agreement on what the $/ton price of carbon is or should be, it is likely non-zero.

LOOKING FORWARD

While there has been no federal action on climate over the last few years, leading to greater uncertainty about potential future prices, many states and utilities continue to value carbon as a reflection of assumed benefit. There appears to be increasing likelihood that the U.S. Environmental Protection Agency will take action to limit emissions from coal plants, potentially providing a more concrete indicator of price.

ENVIRONMENT: OTHER FACTORS

In addition to carbon, DPV has several other environmental benefits (or potentially costs) that, while commonly acknowledged, are included in only a few of the studies reviewed here. That said, there is a significant body of thought for each outside the realm of DPV cost/benefit valuation, some of which is referenced below.

CRITERIA AIR POLLUTANTS

SUMMARY: Criteria air pollutants (NO_X, SO_2, and particulate matter) released from the burning of fossil fuels can produce both health and ecosystem damages. The economic cost of these pollutants is generally estimated as:

1. The compliance costs of reducing pollutant emissions from power plants, or the added compliance costs to further decrease emissions beyond some baseline standard; and/or

2. The estimated cost of damages, such as medical expenses for asthma patients or the value of mortality risk, which attempts to measure willingness to pay for a small reduction in risk of dying due to air pollution.

VALUE: Crossborder (AZ) 2013 estimated the value of criteria air pollutant reductions, based on APS's Integrated Resource Plan, as $0.365/MWh, and NREL 2008 as $0.2-14/MWh (2012$). CPR (NJ/PA) 2012 and AE/CPR 2012 also acknowledged criteria air pollutants, but estimate cost based on a combined environmental value.

RESOURCES:

Epstein, P., Buonocore, J., Eckerle, K. et al., *Full Cost Accounting for the Life Cycle of Coal*, 2011.

Muller, N., Mendelsohn, R., Nordhaus, W., *Environmental Accounting for Pollution in the US Economy.* American Economic Review 101, Aug. 2011. pp. 1649 - 1675.

National Research Council. *Hidden Costs of Energy: Unpriced Consequences of Energy Production and Use,* 2010.

AVOIDED RENEWABLE PORTFOLIO STANDARD (RPS)

SUMMARY: Investments in DPV can help the utility meet a state Renewable Portfolio Standards (RPS) / Renewable Energy Standards (RES) in two ways:

1. As DPV is installed and energy use from central generation correspondingly decreases, the amount of renewable energy the utility is required to purchase to meet an RPS/RES decreases.

2. Depending on the RPS/RES requirements, customer investment in DPV can translate into direct investments in renewables that utilities do have to make if they are able to receive credit, such as through Renewable Energy Certificates (RECs).

VALUE: Crossborder (AZ) 2013 estimated the avoided RPS cost, based on the difference between the revenue requirements for a base scenario and a high renewables scenario in APS's Integrated Resource Plan, as $45/MWh. Crossborder (CA) estimated the avoided RPS cost, based on the cost difference forecast between RPS-eligible resources and the wholesale market prices, at $50/MWh.

RESOURCES:

Beach, R., McGuire, P., *The Benefits and Costs of Solar Distributed Generation for Arizona Public Service.* Crossborder Energy May, 2013.

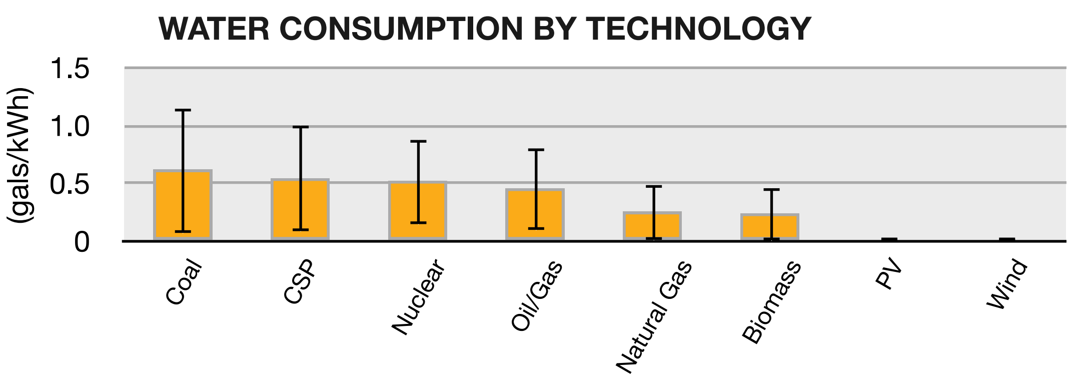
Beach, R., McGuire, P., *Evaluating the Benefits and Costs of Net Energy Metering for Residential Customers in California.* Crossborder Energy, Jan. 2013.

ENVIRONMENT: OTHER FACTORS

In addition to carbon, DPV has several other environmental benefits (or potentially costs) that, while commonly acknowledged, are included in only a few of the studies reviewed here. That said, there is a significant body of thought for each outside the realm of DPV cost/benefit valuation, some of which is referenced below.

WATER

SUMMARY: Coal and natural gas power plants withdraw and consume water primarily for cooling. Approaches to valuing reduced water usage have focused on the cost or value of water in competing sectors, potentially including municipal, agricultural, and environmental/recreational uses.



Source: Fthenakis

VALUE: The only study reviewed that explicitly values water reduction is Crossborder (AZ) 2013, which estimates a $1.084/MWh value based on APS's Integrated Resource Plan.

RESOURCES:

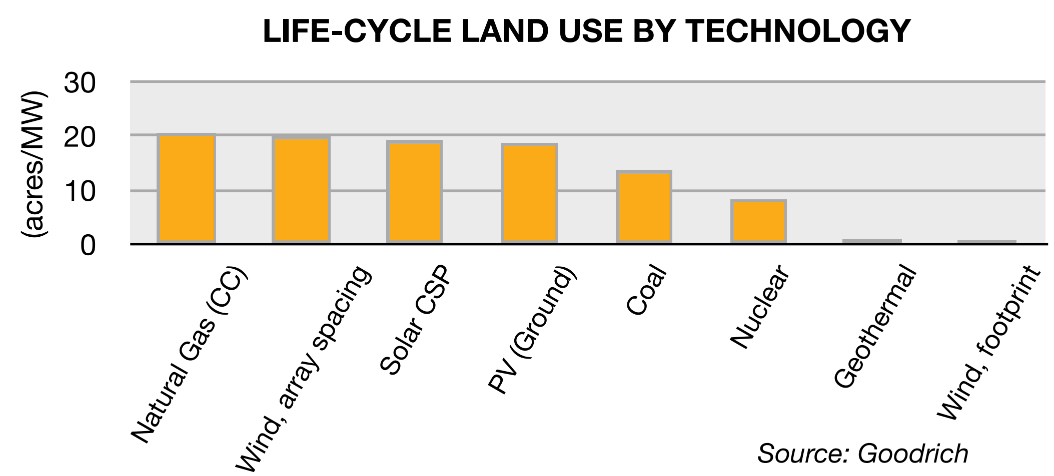
Tellinghulsen, S., *Every Drop Counts.* Western Resources Advocates, Jan. 2011.

Fthenakis, V., Hyungl, C., *Life-cycle Use of Water in U.S. Electricity Generation.* Renewable and Sustainable Energy Review 14, Sept. 2010. pp.2039-2048.

LAND

SUMMARY: DPV can impact land in three ways:

1) Change in property value with the addition of DPV,
2) Land requirement for DPV installation, or
3) Ecosystem impacts of DPV installation.



Source: Goodrich

VALUE: None of the studies reviewed explicitly estimate land impacts.

RESOURCES:

Goodrich et al. Residential, Commercial, and Utility Scale Photovoltaic (V) System Prices in the United States: Current Drivers and Cost-Reduction Opportunities. NREL. February 2012. Pages 14, 23—28

SOCIAL: ECONOMIC DEVELOPMENT

VALUE OVERVIEW

The assumed social value from DPV is based on any job and economic growth benefits that DPV brings to the economy, including jobs and higher tax revenue. The value of economic development depends on number of jobs created or displaced, as measured by a job multiplier, as well as the value of each job, as measured by average salary and/or tax revenue.

APPROACH OVERVIEW

Very few studies reviewed quantify employment and tax revenue value, although a number of them acknowledge the value. CPR (NJ/PN) 2012 calculated job impact based on enhanced tax revenues associated with the net job creation for solar vs conventional power resources. The 2011 study included increased tax revenue, decreased unemployment, and increased confidence for business development economic growth benefits, but only quantified the tax revenue benefit.

IMPLICATIONS AND INSIGHTS

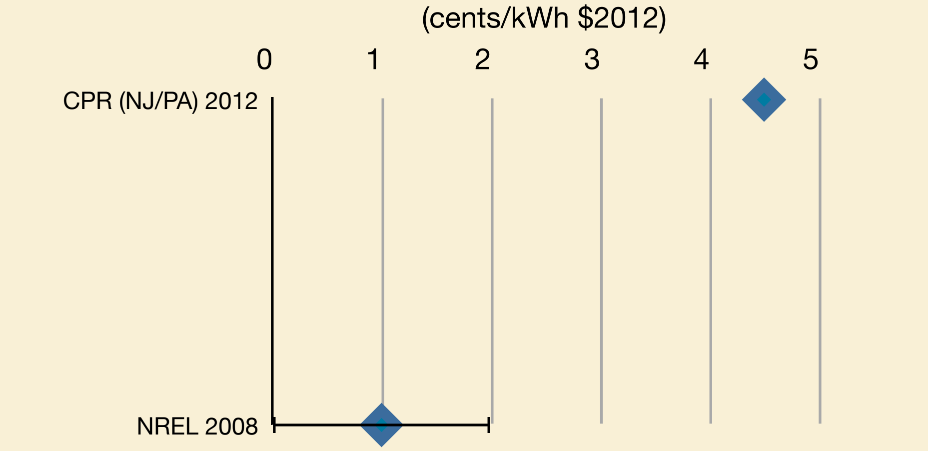
- There is significant variability in the range of job multipliers.
- Many of the jobs created from PV, particularly those associated with installation, are local, so there can be value to society and local communities from growth in quantity and quality of jobs available. The locations where jobs are created are likely not the same as where jobs are lost. While there could be a net benefit to society, some regions could bear a net cost from the transition in the job market.
- While employment and tax revenues have not generally been quantified in studies reviewed, E3 2011 recommends an input-output modeling approach as an adequate representation of this value.

RESOURCES:

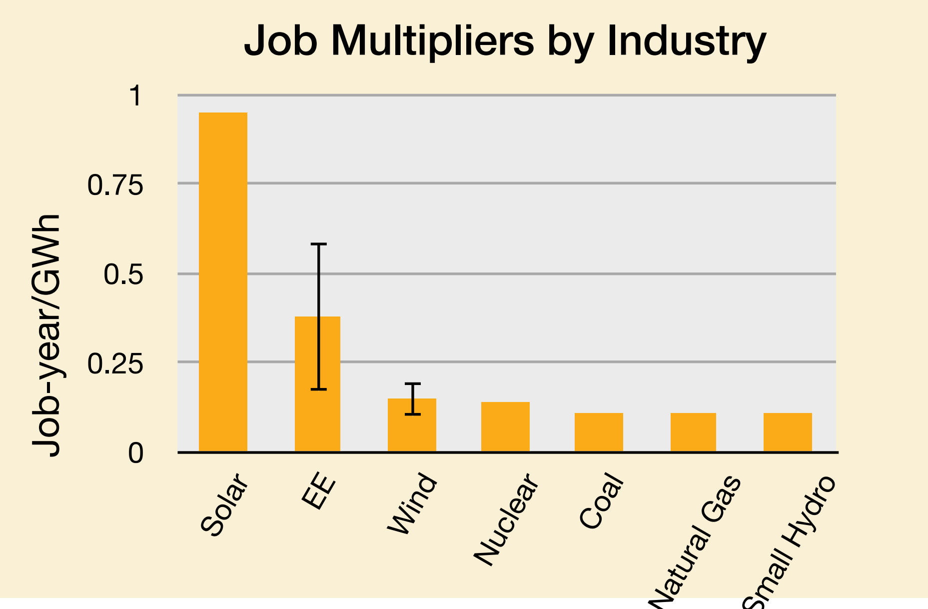
Wei, M., Patadia, S., and Kammen, D., Putting Renewables and Energy Efficiency to Work: How Many Jobs Can the Energy Industry Generate in the US? Energy Policy 38, 2010. pp. 919-931.

Brookings Institute, Sizing the Clean Economy: A National and Regional Green Jobs Assessment, 2011.

ECONOMIC DEVELOPMENT BENEFIT AND COST ESTIMATES AS REPORTED BY REVIEWED STUDIES



Note: Benefits and costs are reflected separately in chart. If only benefits are shown, study did not represent costs.



Sources: Wei, 2010

STUDY OVERVIEWS

04

SECTION STRUCTURE

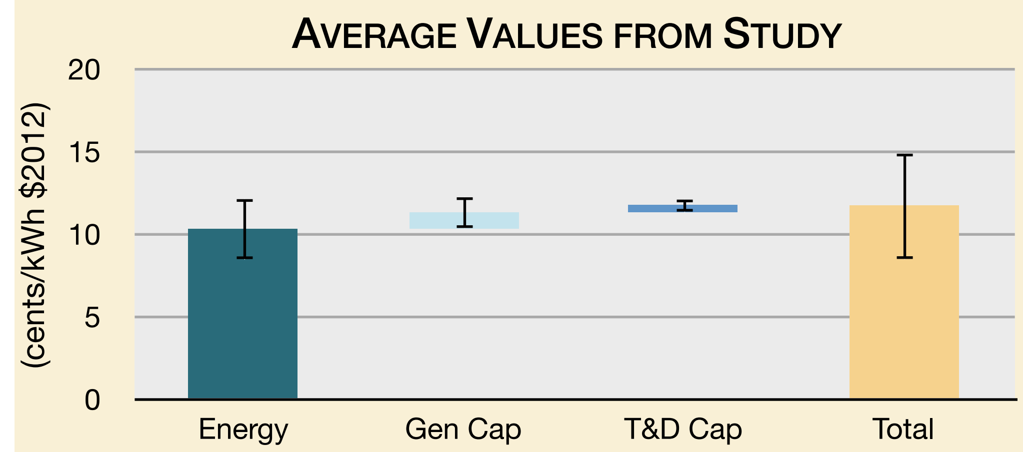
KEY COMPONENTS INCLUDED IN EACH STUDY OVERVIEW

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	*A brief overview of the stated purpose of the study*
GEOGRAPHIC FOCUS	*Geographic region analyzed*
SYSTEM CONTEXT	*Relevant characteristics of the electricity system analyzed*
LEVEL OF SOLAR ANALYZED	*Solar penetrations analyzed, by energy or capacity*
STAKEHOLDER PERSPECTIVE	*Stakeholder perspectives analyzed (e.g., participant, ratepayer, society)*
GRANULARITY OF ANALYSIS	*Level of granularity reflected in the analysis as defined by:* *• Solar characterization - How the solar generation profile is established (e.g., actual insolation data v. modeled, time correlated to load)* *• Marginal resource/losses characterization - Whether the marginal resources and losses are calculated on a marginal hourly basis v. average* *• Geographic granularity - Approach to estimating locationally-dependent benefits or costs (e.g., distribution feeders)*
TOOLS USED	*Key modeling tools used in the analysis*

Highlights

The Highlights section includes key observations about the study's approach, key drivers of results, and findings.

OVERVIEW OF VALUE CATEGORIES



The chart above depicts the average values by category explored in each study.

The Overview of Value Categories section includes brief assessments of the study's approach, relevant assumptions, and findings for each value category included.

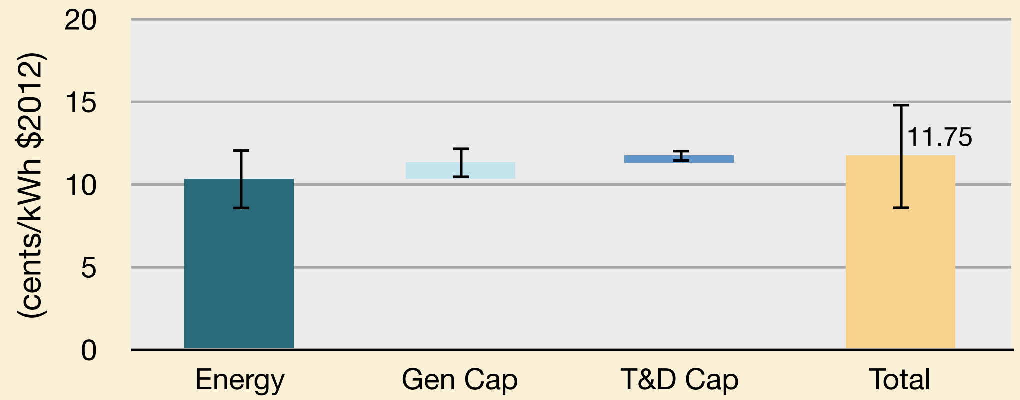
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To determine the potential value of DPV for Arizona Public Service, and to understand the likely operating impacts.
GEOGRAPHIC FOCUS	Arizona Public Service territory
SYSTEM CONTEXT	Vertically integrated IOU, 15% RPS by 2025 with 30% distributed resource carveout
LEVEL OF SOLAR ANALYZED	0-16% by 2025 (by energy)
STAKEHOLDER PERSPECTIVE	Ratepayers
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly TMY data, determined to be good approximation of calendar year data in a comparison • Marginal resource/losses characterization - Calculated based on hourly PROMOD simulation; theoretical hourly loss analysis; actual APS investment plan • Geographic granularity - Screening analysis of specific feeders; example constrained area and greenfield area analyzed
TOOLS USED	SAM 2.0; ABB's Feeder-All; EPRI's Distribution System Simulator; PROMOD

Highlights

- Value was measured incrementally in 2010, 2015, and 2025. The study approach combined system modeling, empirical testing, and information review, and represents one of the more technically rigorous approaches of reviewed studies.
- A key methodological assumption in the study is that generation, transmission, and distribution capacity value can only be given to DPV when it actually defers or avoids a planned investment. The implications are that a certain minimum amount of DPV must be installed in a certain time period (and in a certain location for distribution capacity) to create value.
- The study determines that total value decreases over time, primarily driven by decreasing capacity value. Increasing levels of DPV effectively pushes the system peak to later hours.
- The study acknowledged but did not quantify a number of other values including job creation, a more sustainable environment, carbon reduction, and increased worker productivity.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



**this chart represents the present value of 2025 incremental value, not a levelized cost*

Energy: Energy provides the largest source of value to the APS system. Value is calculated based on a PROMOD hourly commitment and dispatch simulation. DPV reduces fuel, purchased power requirements, line losses, and fixed O&M. The natural gas price forecast is based on NYMEX forward prices with adjustment for delivery to APS's system.

Generation Capacity: There is little, but some, generation capacity value. Generation capacity value does not differ based on the geographic location of solar, but generation capacity investments are "lumpy", so a significant amount of solar is needed to displace it.

Capacity value includes benefits from reduced losses. Capacity value is determined by comparing DPV's dependable capacity (determined as the ELCC) to APS's generation investment plan.

T&D Capacity: There is very little distribution capacity value, and what value exists comes from targeting specific feeders. Solar generation peaks earlier in the day than the system's peak load, DPV only has value if it is on a feeder that is facing an overloaded condition, and DPV's dependable capacity diminishes as solar penetration increases. Distribution value includes capacity, extension of service life, reduction in equipment sizing, and system performance issues.

There is little, but some, transmission capacity value since value does not differ based on the geographic location of solar, but transmission investments are "lumpy", so a significant amount of solar is needed to displaced it. Transmission value includes capacity and potential detrimental impacts to transient stability and spinning resources (i.e., ancillary services).

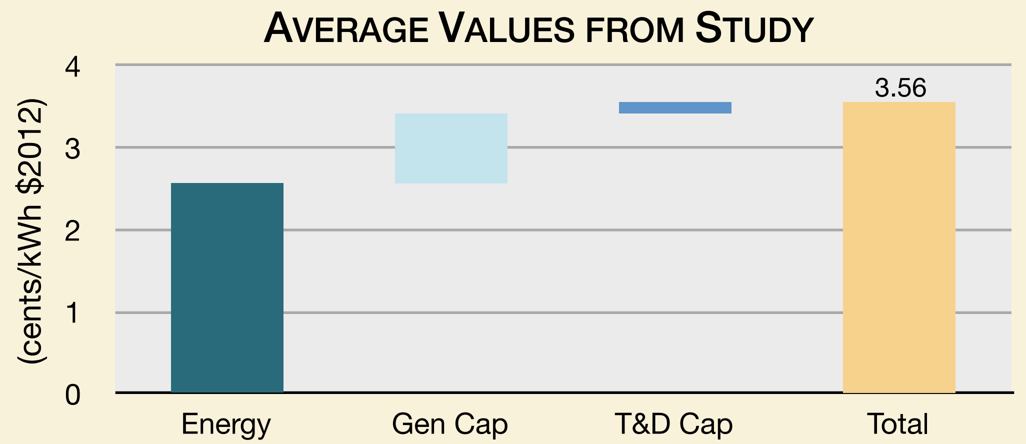
T&D capacity value includes benefits from reduced losses, modeled with a combination of hourly system-wide and feeder-specific modeling. T&D capacity value is determined by comparing DPV's dependable capacity to APS's T&D investment plan. For T&D, as compared to generation, dependable capacity is determined as the level of solar output that will occur with 90% confidence during the daily five hours of peak during summer months.

Study Characteristics	
STUDY OBJECTIVE	To update the valuation of future DPV systems in the Arizona Public Service (APS) territory installed after 2012.
GEOGRAPHIC FOCUS	Arizona Public Service territory
SYSTEM CONTEXT	Vertically integrated IOU, 15% RPS by 2025 with 30% distributed resource carve out, peak extends past sunset
LEVEL OF SOLAR ANALYZED	4.5-16% by 2025 (by energy)
STAKEHOLDER PERSPECTIVE	Ratepayers
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly 30-year TMY data; coupled with production characteristics of actual installed systems • Marginal resource/losses characterization - Calculated based on hourly PROMOD simulation and APS investment plan as in 2009 study; average energy loss and system peak demand loss factors as recorded by APS • Geographic granularity - Screening analysis of existing feeders with >10% PV; based on that, determination of number of feeders where PV could reduce peak load from above 90% to below 90%
TOOLS USED	PVWatts; EPRI's DSS Distribution Feeder Model; PROMOD

Highlights

- Value was measured incrementally in 2015, 2020, and 2025.
- DPV provides less value than in APS's 2009 study, due to changing power market and system conditions. Energy generation and wholesale purchase costs have decreased due to lower natural gas prices. Expected CO_2 costs are significantly lower due to decreased likelihood of federal legislation. Load forecasts are lower, meaning reduced generation, distribution and transmission capacity requirements.
- The study notes the potential for increased value (primarily in T&D capacity) if DPV can be geographically targeted in sufficient quantities. However, it notes that actual deployment since the 2009 study does not show significant clustering or targeting.
- Like the 2009 study, capacity value is assumed to be based on DPV's ability to defer planned investments, rather than assuming every installed unit of DPV defers capacity.

OVERVIEW OF VALUE CATEGORIES



**this chart represents the present value of 2025 incremental value, not a levelized cost*

Energy: Energy provides the largest source of value to the APS system. Value is calculated based on a PROMOD hourly commitment and dispatch simulation. DPV reduces fuel, purchased power requirements, line losses, and fixed O&M. The natural gas price forecast is based on NYMEX forward prices with adjustment for delivery to APS's system. Energy losses are included as part of energy value, and unlike the 2009 report, are based on a recorded average energy loss.

Generation Capacity: Generation capacity value is highly dependent on DPV's dependable capacity during peak. Generation capacity value is based on PROMOD simulations, and results in the deferral of combustion turbines. Benefits from avoided energy losses are included as part of capacity value, and unlike the 2009 report, are based on a recorded peak demand loss. Like the 2009 study, generation capacity value is based on an ELCC calculation.

T&D Capacity: The study concludes that there are an insufficient number of feeders that can defer capacity upgrades based on non-targeted solar PV installations to determine measurable capacity savings. Distribution capacity savings can only be realized if distributed solar systems are installed at adequate penetration levels and located on specific feeders to relieve congestion or delay specific projects, but solar adoption has been geographically dispersed. Distribution value includes reduced losses, capacity, extended service life, and reduced equipment sizing.

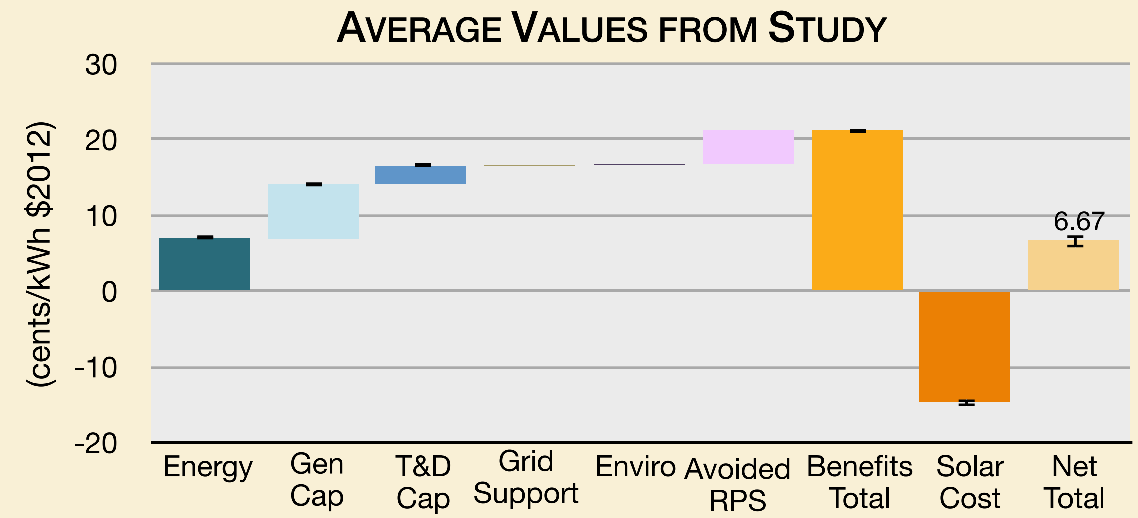
Transmission capacity value is highly dependent on DPV's dependable capacity during peak. No transmission projects can be deferred more than one year, and none past the target years. As with the 2009 study, DPV dependable capacity for the purposes of T&D benefits is calculated based on a 90% confidence of generation during peak summer hours. Benefits from avoided energy losses are included.

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To determine how demand-side solar will impact APS's ratepayers; a response to the APS 2013 study.
GEOGRAPHIC FOCUS	Arizona Public Service territory
SYSTEM CONTEXT	Vertically integrated IOU, 15% RPS by 2025
LEVEL OF SOLAR ANALYZED	DPV likely to be installed between 2013-2015; estimated here to be approximately 1.5%
STAKEHOLDER PERSPECTIVE	Ratepayers
GRANULARITY OF ANALYSIS	• Solar characterization - Not stated • Marginal resource/losses characterization - For energy, expected operating cost of a CT in peak months and CC in non-peak months; for capacity, fixed costs of a CT; marginal line loss factor from APS 2009 • Geographic granularity - Assumption that distribution investment can be deferred on 50% of feeders, based on APS 2009 conclusion that 50% of feeders show potential for reducing peak demand
TOOLS USED	Secondary analysis based on SAIC and APS detailed modeling

Highlights

- The benefits of DPV on the APS system exceed the cost by more than 50%. Key methodological differences between this study and the APS 2009 and 2013 studies include:
  - Determining value levelized over 20 years, as compared to incremental value in test years.
  - Crediting capacity value to every unit of solar DG installed, rather than requiring solar DG to be installed in "lumpy" increments.
  - Using ELCC to determine dependable capacity for generation, transmission, and distribution capacity values, as compared to using ELCC for generation capacity and a 90% confidence during peak summer hours for T&D capacity.
  - Focusing on solar installed over next few years years, rather than examining whether there is diminishing value with increasing penetration.
- The study notes that DPV must be considered in the context of efficiency and demand response—together they defer generation, transmission, and distribution capacity until 2017.

OVERVIEW OF VALUE CATEGORIES



Energy: Avoided energy costs are the most significant source of value. APS's long-term marginal resource is assumed to be a combustion turbine in peak months and a combined cycle in off-peak months, and avoided energy is based on these resources. The natural gas price forecast is based on NYMEX forward market gas prices, and the study determines that it adequately captures the fuel price hedge benefit. Key assumptions: $15/ton carbon adder, 12.1% line losses included in the energy value.

Generation Capacity: Generation capacity value is calculated as DPV dependable capacity (based on DPV's near-term ELCC from APS's 2012 IRP) times the fixed costs of a gas combustion turbine. Every installed unit of DPV receives that capacity value, based on the assumption that, when coupled with efficiency and demand response, capacity would have otherwise been needed before APS's planned investment.

T&D Capacity: T&D capacity value is calculated as DPV dependable capacity (ELCC) times APS's reported costs of T&D investments. Like generation capacity, every installed unit is credited with T&D capacity, with the assumption that 50% of distribution feeders can see deferral benefit. The study notes that APS could take a proactive approach to targeting DPV deployment, thereby increasing distribution value.

Grid Support (Ancillary Services): DPV in effect reduces load and therefore reduces the need for ancillary services that would otherwise be required, including spinning, non-spinning, and capacity reserves.

Environmental: DPV effectively reduces load and therefore reduces environmental impacts that would otherwise be incurred. Lower load means reduced criteria air pollutant emissions and lower water use (carbon is included as an adder to energy value).

Renewable Value: DPV helps APS meet its Renewable Energy Standard, thereby lowering APS's compliance costs.

Solar Cost: Since the study takes a ratepayer perspective, costs included are lost retail rate revenues, incentive payments, and integration costs.

XCEL ENERGY FOR PUBLIC SERVICE COMPANY OF COLORADO, 2013

COSTS AND BENEFITS OF DISTRIBUTED SOLAR GENERATION ON THE PUBLIC SERVICE COMPANY OF COLORADO SYSTEM

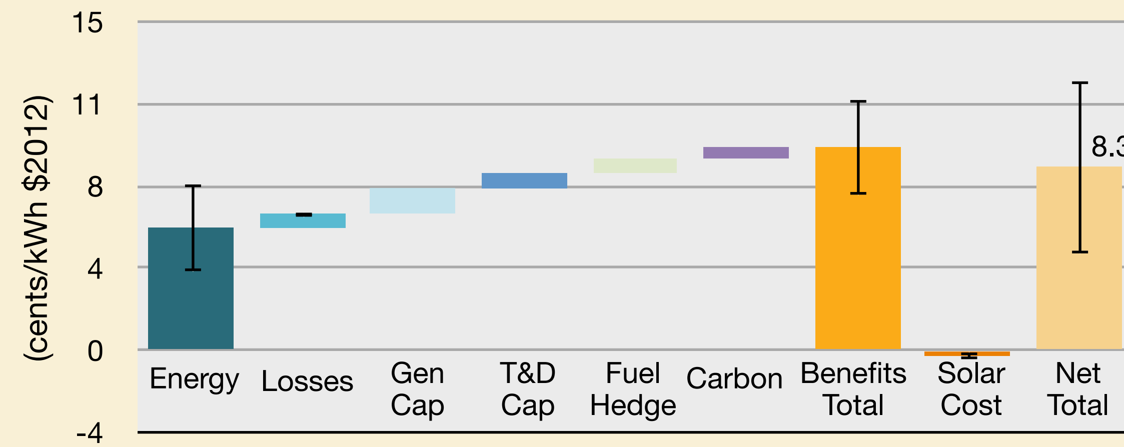
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To determine the costs and benefits of DPV on the Public Service Company of Colorado's electric power supply system at current penetration levels and projections for near-term penetration levels.
GEOGRAPHIC FOCUS	Public Service Company of Colorado's territory
SYSTEM CONTEXT	Vertically integrated IOU, 30% RPS by 2020 (includes DG standard)
LEVEL OF SOLAR ANALYZED	2012 DPV solar capacity: 59 MW; Est penetration in 2014: 140 MW installed by 2014
STAKEHOLDER PERSPECTIVE	System (excludes participant expenses (PV cost), solar program administration costs, or program incentive payments)
GRANULARITY OF ANALYSIS	• Solar characterization - Single TMY2 hourly generation profile weighted to represent entire 59 MW of DPV on PSCO's system used to calculate avoided energy costs & certain components of distribution system analysis; Historical meter data from 9 PV systems in 2009, 14 systems in 2010 (each >250 kW) used to estimate DPV capacity credit • Marginal resource/losses characterization - Calculated based on hourly PROMOD simulation; theoretical hourly loss analysis • Geographic granularity - Hourly feeder level data from small subset of feeders extrapolated to system
TOOLS USED	ProSym; NREL's TMY2 data sets using PV Watts

Highlights

- The study concludes that the most significant avoided cost from DPV (>90%) is from avoided energy costs.
- Energy value was calculated by comparing ProSym simulations with and without DPV, and the results were highly sensitive to assumed natural gas price forecasts. To estimate annual avoided energy costs, ProSym modeling used a single TMY2 generation profile (weighted by distribution of PV across PSCO's system), which was non-serially correlated with system load data.
- For the study, Xcel updated its ELCC calculations that are used to estimate capacity credit for DPV. In comparison to its previous 2009 ELCC study, the updated capacity credit for DPV across the four solar zones used is roughly 30% lower. The capacity credits range from 27%-32% for fixed installations and 40%-46% for tracking PV.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Costs are calculated on a marginal basis using ProSym hourly commitment and dispatch simulation using the TMY2 data set. The variable costs include fuel, variable O&M, and generation unit start costs. ProSym simulation implies DPV tends to primarily displace generation that is blend of an efficient CC unit (7 MMBtu/MWh) and a less efficient CT (10 MMBtu/MWh) through 2035. It is noted that, through 2017, DPV displaces a mix of gas-fired and coal-fired generation (before coal is retired in 2017).

System Losses: Avoided T&D lines losses were assumed to achieve savings in energy, emissions, fuel hedge value and generation capacity. Distribution line losses were estimated using actual hourly feeder load data for the 58 feeders that represent 55% of DPV generation, and using an estimated value for the remainder. Average distribution losses were used to estimate savings from energy, emission & hedge value, and on a peak basis for generation capacity. Transmission line losses, based on annual, DPV generation-weighted values, were used to calculate energy, emissions, and hedge value, whereas avoided generation capacity was based on losses incurred across top 50 load hours.

Generation Capacity: Avoided generation capacity costs are based on the market price of capacity until 2017, and after that (because of incremental need) based on the economic carrying charge of a generic CT's capital and fixed O&M costs. The avoided generation capacity cost is credited to DPV based on a ELCC study (historical system load and solar generation patterns for 2009 and 2010).

T&D Capacity: DPV is assumed to defer distribution feeder capital investment by 1 to 2 years only if the existing feeder's peak load is at or near the feeder's capacity and the feeder's peak load is decreased by ~10%.

Fuel Price Hedge Value: While the study notes the approach taken in other benefit/ cost studies to estimate fuel price hedge value from NYMEX fuel price forecasts, it is not explicitly stated how the fuel price hedge was ultimately estimated.

Carbon: Annual tons of CO_2 emissions avoided by DPV as calculated by the ProSym avoided cost case simulations. Change in marginal emissions over time driven by planned changes in generation fleet (primarily retirement of 1,300 MW coal in 2017).

Solar Cost: Defined as "Integration Costs," or "costs that DPV adds to the overall cost of operating the Public Service power supply system based on inefficiencies that arise when the actual net load differs from the day-ahead forecasted net load." These costs are composed of electricity production costs levelized over 20 years.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC. (E3), 2011
CALIFORNIA SOLAR INITIATIVE COST-EFFECTIVENESS EVALUATION

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	"To perform a cost-effectiveness evaluation of the California Solar Initiative (CSI) in accordance with the CSI Program Evaluation Plan."
GEOGRAPHIC FOCUS	California
SYSTEM CONTEXT	Study: CSI program, retail net metering CA: 33% RPS, ISO market
LEVEL OF SOLAR ANALYZED	1,940 MW program goal (<1% of 2016 peak load)
STAKEHOLDER PERSPECTIVE	Participants (DPV customers), Ratepayers, Program Administrator, Total Resource, Society
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly PV output profiles based on metered and simulated PV output data • Marginal resource/losses characterization - Energy: historical hourly day-ahead market price shapes (CAISO); Capacity: fixed cost of a new CT less net energy, AS revenues (see Overview box); Energy loss factors by TOU period, season; Capacity loss factors at peak periods • Geographic granularity - Major climate zones for each IOU; costs from utility rate case filings used as proxy for long-run marginal cost T&D investment avoided
TOOLS USED	E3 Avoided Cost Calculator (2011)

Highlights

- The study concludes that DPV is not expected to be cost-effective from a total resource or rate impact perspective during the study period, but that participant economics will not hinder CSI adoption goals. Program incentives support participant economics in the short-run, but DPV is expected to be cost-effective for many residential customers without program incentives by 2017. The study suggests that the value of non-economic benefits of DPV should be explored to determine if and how they provide value to California.

- The study focuses on seven benefits including energy, line losses, generation capacity, T&D capacity, emissions, ancillary services, and avoided RPS purchases. It focuses on costs including net energy metering bill credits, rebates/incentives, utility interconnection, costs of the DG system, net metering costs, and program administration.

- The study assesses hourly avoided costs in each of California's 16 climate zones to reflect varying costs in those zones, and calculates benefits and costs as 20-year levelized values. It uses E3's avoided cost model.

OVERVIEW OF VALUE CATEGORIES

This study assesses overall cost-effectiveness based on five cost tests (participant cost test, ratepayer impact measure, program administrator cost, total resource cost, and societal cost) as defined in the California Standard Practices Manual, and presents total rather than itemized results. Therefore, individual results are not shown here in a chart.

Energy: Hourly wholesale value of energy measured at the point of wholesale energy transaction. Natural gas price is based on NYMEX forward market and then on a long-run forecast of natural gas prices.

System Losses: Losses between the delivery location and the point of wholesale energy transaction. Losses scale with energy value, and reflect changing losses at peak periods.

Generation Capacity: Value of avoiding new generation capacity (assumed to be a gas combustion turbine) to meet system peak loads, including additional capacity avoided due to decreased energy losses. DPV receives the full value of avoided capacity after the resource balance year. Value is less in the short-run (before the resource balance year) because of CAISO's substantial planning reserve margin.

T&D Capacity: Value of deferring T&D capacity to meet peak loads.

Grid Support Services (Ancillary Services): Value based on historical ancillary services market prices, scaled with the price of natural gas. Individual ancillary services included are regulation up, regulation down, spinning reserves, and non-spinning reserves, and value is based on how a load reduction affects the procurement of each AS.

Avoided RPS: Value is the incremental avoided cost of purchasing renewable resources to meet California's RPS.

Environmental: Value of CO_2 reduction, with $/ton price based on a meta-analysis of forecasts. Unpriced externalities (primarily health effects) were valued at $0.01-0.03/kWh based on secondary sources.

Social: The study acknowledges that customers who install DPV may also install more energy efficiency, but does not attempt to quantify that value. The study also acknowledges potential benefits associated with employment and tax revenues and suggests that an input-output model would be an appropriate approach, although these benefits are not quantified in this study.

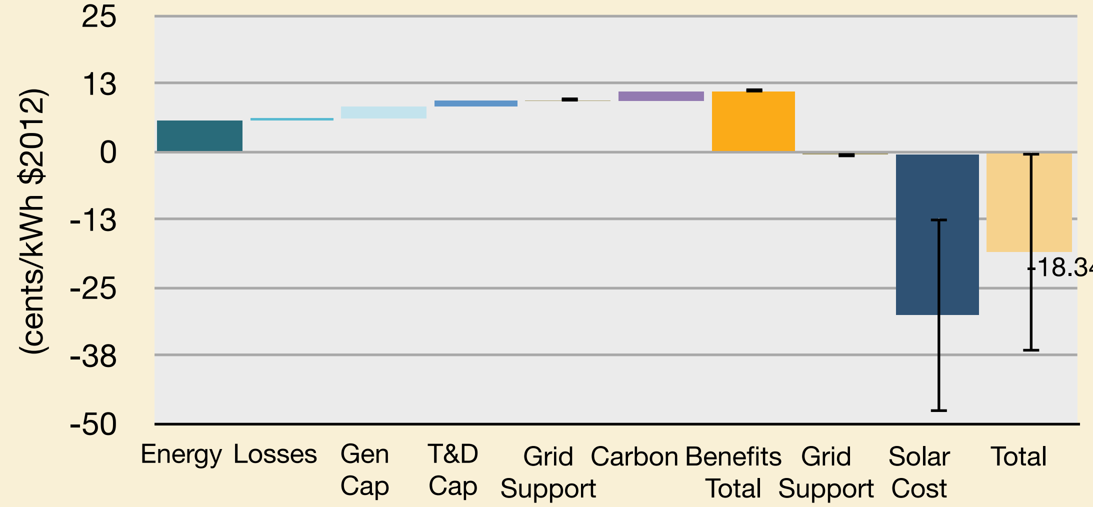
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To estimate the technical potential of local DPV in California, and the associated costs and benefits.
GEOGRAPHIC FOCUS	California
SYSTEM CONTEXT	California's 3 investor-owned utilities (IOU): PG&E, SDG&E, SCE
LEVEL OF SOLAR ANALYZED	< 24% system peak load
STAKEHOLDER PERSPECTIVE	Total resource cost (TRC)
GRANULARITY OF ANALYSIS	• Solar characterization - Simulated hourly PV output for each configuration (horizontal, fixed tilt, tracking) for each substation based on 2010 weather • Marginal resource/losses characterization - Energy: historical hourly day-ahead market price shapes (CAISO); Capacity: fixed cost of a new CT less net energy, AS revenues (see Overview box); Energy loss factors by TOU period, season; Capacity loss factors at peak periods • Geographic granularity - Compared hourly load at the individual substation level to potential PV generation at the same location at 1,800 substations
TOOLS USED	E3 Avoided Cost Calculator

Highlights

- Local DPV is defined as PV sized such that its output will be consumed by load on the feeder or substation where it is interconnected. Specifically, the generation cannot backflow from the distribution system onto the transmission system.
- The process for identifying sites included using GIS data to identify sites surrounding each of approximately 1,800 substations in PG&E, SDG&E and SCE. The study compared hourly load that the individual substation level to potential DPV generation at the same location.
- Cost of local distributed DPV increases significantly with Investment Tax Credit (ITC) expiration in 2017.
- When DPV is procured on a least net cost basis, opportunities may exist to locate in areas with high avoided costs. In 2012, a least net cost procurement approach results in net costs that are approximately $65 million lower assuming avoided transmission and distribution costs can be realized. These benefits carry through to 2016 for the most part, but disappear by 2020, when all potential has been realized regardless of cost.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Estimate of hourly wholesale value of energy adjusted for losses between the point of wholesale transaction and delivery. Annual forecast based on market forwards that transition to annual average market price needed to cover the fixed and operating costs of a new CCGT, less net revenue from day-ahead energy, ancillary service, and capacity markets. Hourly forecast derived based on historical hourly day-ahead market price shapes from CAISO's MRTU system.

System Losses: Losses between the delivery location and the point of wholesale energy transaction. Losses scale with energy value, and reflect changing losses at peak periods.

Generation Capacity: In the long-run (after the resource balance year), generation capacity value is based on the fixed cost of a new CT less expected revenues from real-time energy and ancillary services markets. Prior to resource balance, value is based on a resource adequacy value.

T&D Capacity: Value is based on the "present worth" approach to calculate deferment value, incorporating investment plans as reported by utilities.

Grid Support Services (Ancillary Services): Value based on the value of avoided reserves, scaling with energy.

Carbon: Value of CO_2 emissions, based on an estimate of the marginal resource and a meta-analysis of forecasted carbon prices.

Solar Cost -The installed system cost, the cost of land and permitting, and the interconnection cost

*E3's components of electricity avoided costs include generation energy, line losses, system capacity, ancillary services, T&D capacity, environment.

EVALUATING THE BENEFITS AND COSTS OF NET ENERGY METERING IN CALIFORNIA

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	"To explore recent claims from California's investor-owner utilities that the state's NEM policy causes substantial cost shifts between energy customers with Solar PV systems and non-solar customers, particularly in the residential market."
GEOGRAPHIC FOCUS	California
SYSTEM CONTEXT	33% RPS, retail net metering, increasing solar penetration, ISO market
LEVEL OF SOLAR ANALYZED	Up to 5% of peak (by capacity)
STAKEHOLDER PERSPECTIVE	Ratepayers
GRANULARITY OF ANALYSIS	• Solar characterization - Used PVWatts to produce hourly PV outputs at representative locations • Marginal resource/losses characterization - Based on E3 avoided cost model (Sept 2011), which determines hourly energy market values and capacity based on CT (since resource balance year not used in this study) • Geographic granularity - Major climate zones for each IOU; costs from utility rate case filings used as proxy for long-run marginal cost T&D investment avoided
TOOLS USED	E3 Avoided Cost Calculator (2011), PVWatts

Highlights

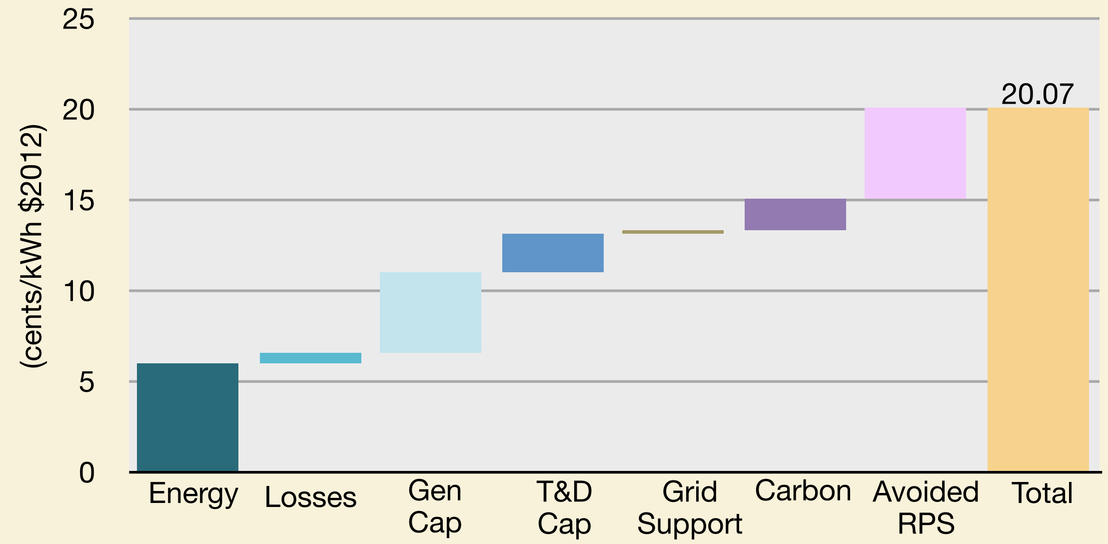
- The study concludes that "on average over the residential markets of the state's three big IOUs, NEM does not impose costs on non-participating ratepayers, and instead creates a small net benefit." This conclusion is driven by "recent significant changes that the CPUC has adopted in IOUs' residential rate designs" plus "recognition that [DPV]...avoid other purchases or renewable power, resulting in a significant improvement in the economics of NEM compared to the CPUC's 2009 E3 NEM Study."

- The study focused on seven benefits: avoided energy, avoided generation capacity, reduced cost for ancillary services, lower line losses, reduced T&D investments, avoided RPS purchases, and avoided emissions. The study's analysis reflects costs to other customers (ratepayers) from "bill credits that the utility provides to solar customers as compensation for NEM exports, plus any incremental utility costs to meter and bill NEM customers." These costs are not quantified and levelized individually in the report, so they are not reflected in the chart to the right.

- The study bases its DPV value assessment on E3's avoided cost model and approach. It updates key assumptions including natural gas price forecast, greenhouse gas allowance prices, and ancillary services revenues, and excludes the resource balance year approach (the year in which avoided costs change from short-run to long-run). The study views the resource balance year as inconsistent with the modular, short lead-time nature of DPV. The study only considered the value of the exports to the grid under the utility's NEM program.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Wholesale value of energy adjusted for losses between the point of the wholesale transaction and the point of delivery. Crossborder adjusted natural gas price forecast and greenhouse gas price forecast.

System Losses: The loss in energy from transmission and distribution across distance.

Generation Capacity: The cost of building new generation capacity to meet system peak loads. Crossborder does not use E3's "resource balance year" approach, which means that generation capacity value is based on long-run avoided capacity costs.

T&D Capacity: The costs of expanding transmission and distribution capacity to meet peak loads.

Grid Support Services (Ancillary Services): The marginal cost of providing system operations and reserves for electricity grid reliability. Crossborder updated assumed ancillary services revenues.

Carbon: The cost of carbon dioxide emissions associated with the marginal generating resource.

Avoided RPS: The avoided net cost of procuring renewable resources to meet an RPS Portfolio that is a percentage of total retail sales due to a reduction in retail loads.

QUANTIFYING THE BENEFITS OF SOLAR POWER FOR CALIFORNIA

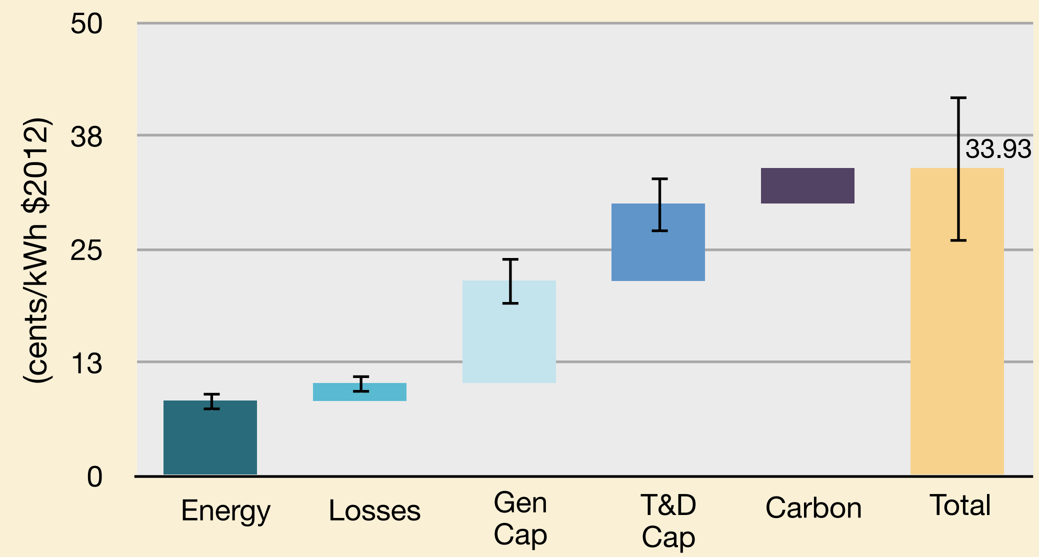
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To provide a quantitative analysis of key benefits of solar energy for California.
GEOGRAPHIC FOCUS	California
SYSTEM CONTEXT	California's 3 investor-owned utilities (IOU): PG&E, SDG&E, SCE
LEVEL OF SOLAR ANALYZED	Unspecified
STAKEHOLDER PERSPECTIVE	Utility, ratepayer, participant, society
GRANULARITY OF ANALYSIS	• Solar characterization - Assumed average solar PV ELCC to be 50% from range of 36%-70% derived from NREL study[1] • Marginal resource/losses characterization - Assumed natural gas generation plant on margin both for peak demand and non-peak periods • Geographic granularity - Not considered in this study
TOOLS USED	Spreadsheet analysis

Highlights

- The study concluded that the value of on-peak solar energy in 2005 ranged from $0.23 - 0.35 /kWh.
- The analysis looks at avoided costs under two alternative scenarios for the year 2005. The two scenarios vary the cost of developing new power plants and the price of natural gas.
  - Scenario 1 assumed new peaking generation will be built by the electric utility at a cost of capital of 9.5% with cost recovery over a 20 year period; the price of natural gas is based on the 2005 summer market price (average gas price)
  - Scenario 2 assumed new peaking generation will be built by a merchant power plant developer at a cost of capital of 15% with cost recovery over a 10 year period; the price of natural gas is based on the average gas price in California for the period of May 2000 through June 2001 (high gas price – 24% higher)
- While numerous unquantifiable benefits were noted, five benefits were quantified:
  1) Deferral of investments in new peaking power capacity
  2) Avoided purchase of natural gas used to produce electricity
  3) Avoided emissions of CO_2 and NO_x that impact global climate and local air quality
  4) Reduction in transmission and distribution system power losses
  5) Deferral of transmission and distribution investments that would be needed to meet growing loads.
- The study assumed that, "in California, natural gas is the fuel used by power plants on the margin both for peak demand periods and non-peak periods. Therefore it is reasonable to assume the solar electric facilities will displace the burning of natural gas in all hours that they produce electricity."

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Avoided fuel and variable O&M. Natural gas fuel price multiplied by assumed heat rate of peaking power plant (9360 MMBtu/kWh). Assumed value of consumables such as water and ammonia to be approximately 0.5 cents/ kWh. For non-peak, average heat rates of existing fleet of natural gas plants were used for each electric utility's service area. Assumed heat rates: PG&E: 8740 MMBtu/kWh, SCE - 9690 MMBtu/kWh, SDG&E – 9720 MMbtu/kWh.

System Losses: Solar assumed to be delivered at secondary voltage. The summer peak and the summer shoulder loss factors are used to calculate the additional benefit derived from solar power systems because of their location at load.

Generation Capacity: Cost of installing a simple cycle gas turbine peaking plant multiplied by DPV's ELCC and a capital recovery factor, converted into costs per kilowatt hour by expected hours of on-peak operation.

T&D Capacity: One study area was selected for each utility to calculate the value of solar electricity in avoiding T&D upgrades. To simplify the analysis the need for T&D upgrades was assumed to be driven by growth in demand during 5% of the hours in a year. The 50% ELCC was used used in calculating the value of avoided T&D upgrades.

Carbon: Assumed to be the avoided air emissions, CO_2 and NOx, created from marginal generator (natural gas). CO_2 = $100/ton; NOx = $.014/kWh

1 "Solar Resource-Utility Load-Matching Assessment," Richard Perez, National Renewable Energy Laboratory, 1994

ACCELERATING RESIDENTIAL PV EXPANSION: DEMAND ANALYSIS FOR COMPETITIVE ELECTRICITY MARKETS

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To quantify the potential market for grid-connected, residential PV electricity integrated into new houses built in the US.
GEOGRAPHIC FOCUS	California and Illinois
SYSTEM CONTEXT	California: 33% RPS, mostly gas generation; Illinois: mostly coal generation
LEVEL OF SOLAR ANALYZED	not stated; assumed low
STAKEHOLDER PERSPECTIVE	System
GRANULARITY OF ANALYSIS	• Solar characterization - Single estimated insolation for two states analyzed • Marginal resource/losses characterization - For energy, marginal resource is a natural gas plant in California and a cola plant in Illinois. For capacity, marginal resource is a gas turbine in both states. Losses based on average and peak loss factors estimated in secondary sources. • Geographic granularity - Transmission and distribution system impacts not accounted for since they are site specific
TOOLS USED	High level, largely based on secondary analysis

Highlights

- Total value varies significantly between the two regions studied largely driven by what the off-peak marginal resource is (gas vs coal). Coal has significantly higher air pollution costs, although lower fuel costs.
- The study notes that true value varies dramatically with local conditions, so precise calculations at a high-level analysis level are impossible. As such, transmission and distribution impacts were acknowledged but not included.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY

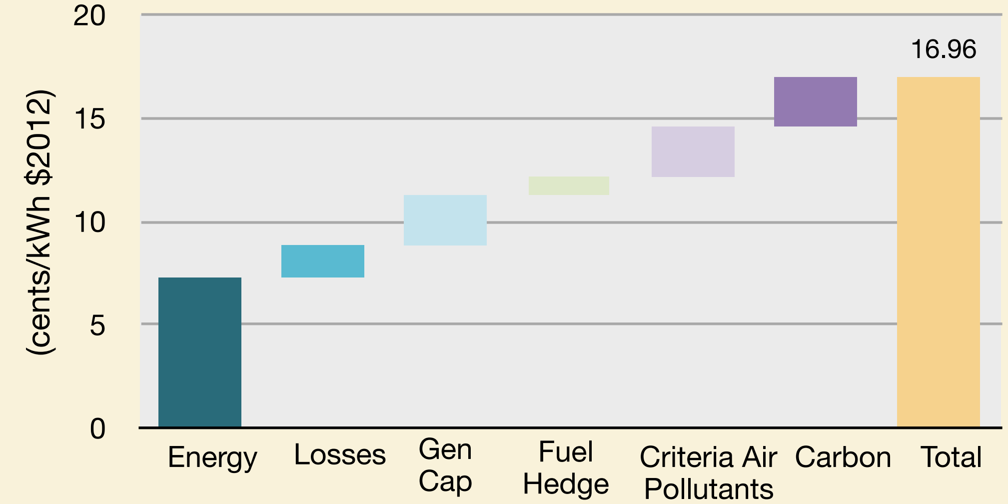


Chart data only reflects California assessment for comparison

Energy: Energy value is based on the marginal resource on-peak (gas combustion turbine) and off-peak (inefficient gas in California, and coal in Illinois). Fuel prices are based on Energy Information Administration projections, and levelized.

System Losses: Energy losses are assumed to be 7-8% off-peak, and up to twice that on-peak. Losses are only included as energy losses.

Generation Capacity: Generation capacity value is based on the assumption that the marginal resource is always a gas combustion turbine. Effective capacity is based on an ELCC estimate from secondary sources.

Fuel Price Hedge Value: Hedge value is estimated based on the market value to utilities of a fixed natural gas price for up to 10 years based on market swap data. The hedge is assumed to be additive since EIA gas prices were used rather than NYMEX futures market.

Criteria Air Pollutants: Criteria air pollutant reduction value is based on avoided costs of health impacts, estimated by secondary sources.

Carbon: Carbon value is the price of carbon (estimated based on European market projections) times the amount of carbon displaced.

Lawrence Berkeley National Lab, 2012

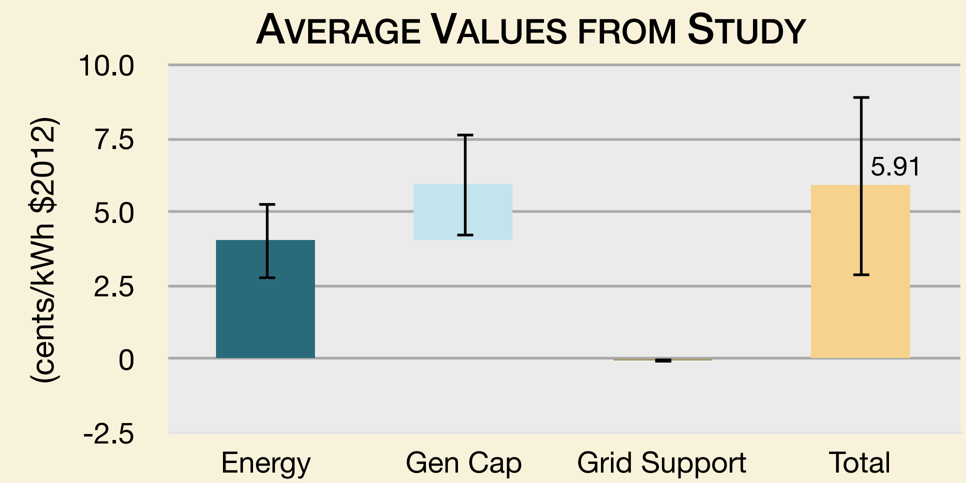
Changes in the Economic Value of Variable Generation at High Penetration Levels: A Pilot Case Study of California

Study Characteristics	
STUDY OBJECTIVE	To quantify the change in value for a subset of economic benefits (energy, capacity, ancillary services, DA forecasting error) that results from using renewable generation technologies (wind, PV, CSP, & Thermal Energy Storage) at different penetration levels.
GEOGRAPHIC FOCUS	Loosely based on California
SYSTEM CONTEXT	33% RPS, ISO market
LEVEL OF SOLAR ANALYZED	Up to 40% (by energy)
STAKEHOLDER PERSPECTIVE	System
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly satellite derived insolation data from National Solar Research Database, 10 km x 10 km granularity, NREL SAM model • Marginal resource/losses characterization - For energy and capacity, modeled hourly market prices, reflecting day-ahead, real-time, and ancillary services • Geographic granularity - Not considered in this study
TOOLS USED	Customized model that evaluates long-run investment decisions and short-term dispatch and operations

Highlights

- The marginal economic value of solar exceeds the value of flat block power at low penetration levels, largely attributable to generation capacity value and solar coincidence with peak.
- The marginal value of DPV drops considerably as the penetration of solar increases, initially, driven by a decrease in capacity value with increasing solar generation. At the highest renewable penetrations considered, there is also a decrease in energy value as DPV displaces lower cost resources.
- The study notes that it is critical to use an analysis framework that addresses long-term investment decisions as well as short-term dispatch and operational constraints.
- Several costs and impacts are not considered in the study, including environmental impacts, transmission and distribution costs or benefits, effects related to the lumpiness and irreversibility of investment decisions, uncertainty in future fuel and investment capital costs, and DPV's capital cost.

Overview of Value Categories



Energy: Energy value decreases at high penetrations because the marginal resource that DPV displaces changes as the system moves down the dispatch stack to a lower cost generator. Energy value is based on the short-run profit earned in non-scarcity hours (those hours where market prices are under $500/MWh), and generally displaces energy from a gas combined cycle. Fuel costs are based on Energy Information Administration projections.

Generation Capacity: Generation capacity value is based on the portion of short-run profit earned during hours with scarcity prices (those hours where market price equals or exceeds $500/MWh). Effective DPV capacity is based on an implied capacity credit as a result of the model's investment decisions, rather than a detailed reliability or ELCC analysis.

Grid Support (Ancillary Services): Ancillary services value is the net earnings from selling ancillary services in the market as well as paying for increased ancillary services due to increased short-term variability and uncertainty.

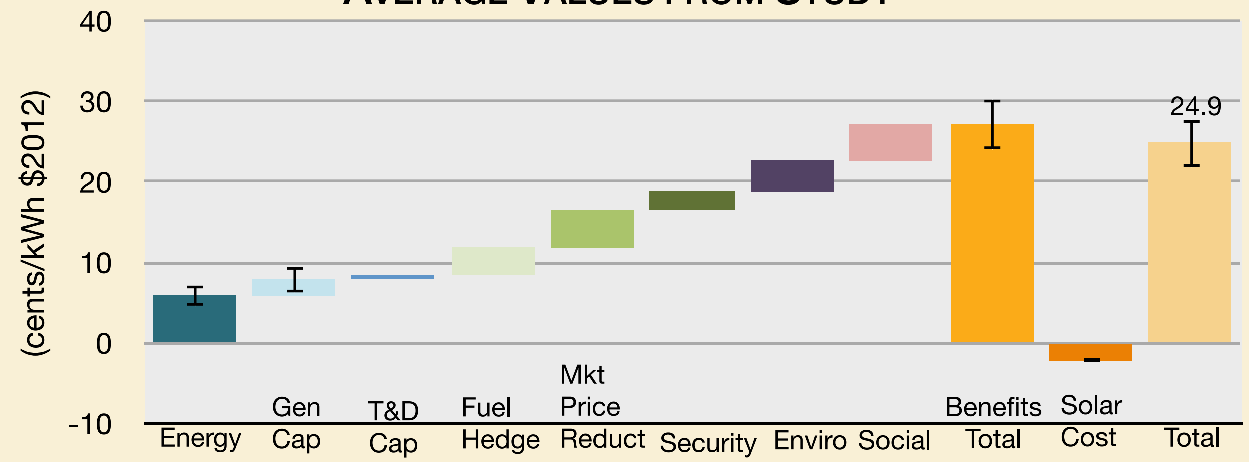
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To quantify the cost and value components provided to utilities, ratepayers, and taxpayers by grid-connected, DPV in Pennsylvania and New Jersey.
GEOGRAPHIC FOCUS	7 cities across PA and NJ
SYSTEM CONTEXT	PJM ISO
LEVEL OF SOLAR ANALYZED	15% of system peak load, totaling 7 GW across the 7 utility hubs
STAKEHOLDER PERSPECTIVE	Utility, ratepayers, taxpayer
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly estimates based on SolarAnywhere (satellite-derived irradiance data and simulation model with a 10 km x 10 km pixel resolution) • Marginal resource/losses characterization - For energy and capacity, marginal resource assumed to be CT; Marginal loss savings calculated, although methodology unclear • Geographic granularity - Locational marginal price node
TOOLS USED	Clean Power Research's Distributed PV Value Calculator; Solar Anywhere, 2012

Highlights

- The study evaluated 10 benefits and 1 cost. Evaluated benefits included: Fuel cost savings, O&M cost savings, security enhancement, long term societal benefit, fuel price hedge, generation capacity, T&D capacity, market price reduction, environmental benefit, economic development benefit. The cost evaluated was the solar penetration cost.
- The analysis represents the value of PV for a "fleet" of PV systems, evaluated in 4 orientations, each at 7 locations (Pittsburgh, PA; Harrisburg, PA; Scranton, PA; Philadelphia, PA; Jamesburg, NJ; Newark, NJ; and Atlantic City, NJ), spanning 6 utility service territories, each differing by: cost of capital, hourly loads, T&D loss factors, distribution expansion costs, and growth rate.
- The total value ranged from $256 to $318/MWh. Of this, the highest value components were the Market Price Reduction (avg $55/MWh) and Economic Development Value (avg $44/MWh).
- The moderate generation capacity value is driven by a moderate match between DPV output and utility system load. The effective capacity ranges from 28% to 45% of rated output (in line with the assigned PJM value of 38% for solar resources).
- Loss savings were not treated as a stand-alone benefit under the convention used in this methodology. Rather, the loss savings effect is included separately for each value component.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Fuel and O&M cost savings. PV output plus loss savings times marginal energy cost, summed for all hrs of the year, discounted over PV life (30 years). Marginal energy costs are based on fuel and O&M costs of the generator most likely operating on the margin (assumed to be a combined cycle gas turbine). Assumed natural gas price forecast: NYMEX futures years 0-12; NYMEX futures price for year 12 x 2.33% escalation factor. Escalation rate assumed to be the same as the rate of wellhead price escalation from 1981-2011.

Generation Capacity: Capital cost of displace generation times PV's effective load carrying capability (ELCC), taking into account loss savings.

T&D Capacity: Expected long-term T&D system capacity upgrade cost, divided by load growth, times financial term, times a factor that represents match between PV system output (adjusted for losses) and T&D system load. In this study, T&D values were based on utility-wide average loads, which may obscure higher value areas.

Fuel Price Hedge Value: Cost to eliminate the fuel price uncertainty associated with natural gas generation through procurement of commodity futures. The value is directly related to the utility's cost of capital.

Market Price Reduction: Value to customers of the reduced cost of wholesale energy as a result of PV installation decreasing the demand for wholesale energy. Quantified through an analysis of the supply curve and reduction in demand, and the accompanying new market clearing price.

Security Enhancement Value: Annual cost of power outages in the U.S. times the percent (5%) that are high-demand stress type that can be effectively mitigated by DPV at a capacity penetration of 15%.

Social (Economic Development Value): Value of tax revenues associated with net job creation for solar vs conventional power generation. PV hard and soft cost /kW times portion of each attributed to local jobs, divided by annual PV system energy produced, minus CCGT cost/kW times portion attributed to local jobs divided by annual energy produced. Levelized over the 30 year lifetime of PV system, adjusted for lost utility jobs, multiplied by tax rate of a $75K salary, multiplied by indirect job multiplier.

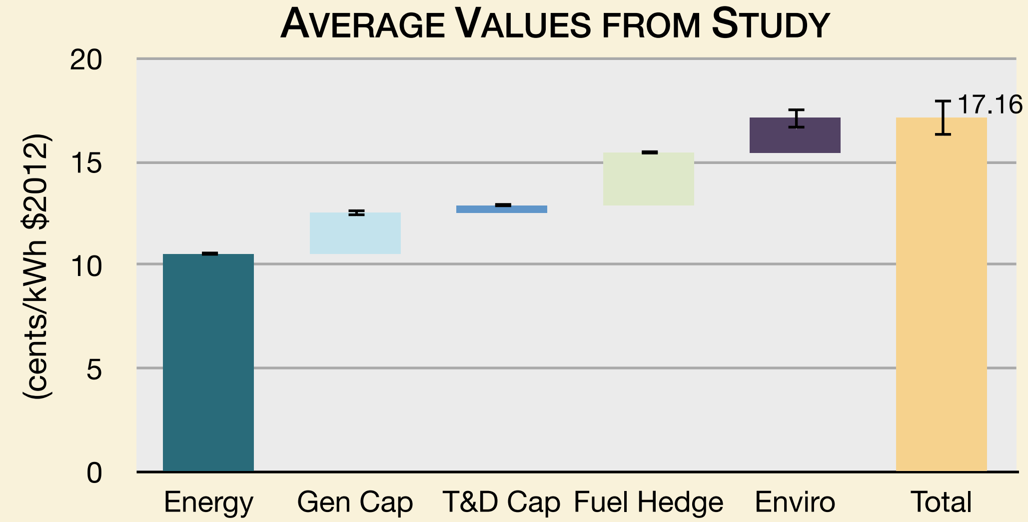
Environmental: Environmental cost of a displaced conventional generation technology times the portion of this technology in the energy generation mix, repeated and summed for each conventional generation sources displaced by PV. Environmental cost for each generation source based on costs of GHG, SOx / NOx emissions, mining degradations, ground-water contamination, toxic releases and wastes. etc...as calculated in several environmental health studies.

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To quantify the value provided by grid-connected, DPV in San Antonio from a utility perspective.
GEOGRAPHIC FOCUS	CPS Energy territory
SYSTEM CONTEXT	Municipal utility
LEVEL OF SOLAR ANALYZED	1.1-2.2% of peak load (by capacity)
STAKEHOLDER PERSPECTIVE	Utility
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly estimates based on SolarAnywhere (satellite-derived irradiance data and simulation model with a 10 km x 10 km pixel resolution) to provide time- and location-correlated PV output with utility loads • Marginal resource/losses characterization - For energy and capacity, marginal resource assumed to be an "advanced gas turbine"; losses calculated on marginal basis • Geographic granularity - Not specified
TOOLS USED	Clean Power Research's SolarAnywhere, PVSimulator, DGValuator

Highlights

- The study concludes that DPV provides significant value to CPS Energy, primarily driven by energy, generation capacity deferment, and fuel price hedge value. The study is based solely on publicly-available data; it notes that results would be more representative with actual financial and operating data. Value is a levelized over 30 years.
- The study notes that value likely decreases with increasing penetration, although higher penetration levels needed to estimate this decrease were not analyzed.
- The study acknowledged but did not quantify a number of other values including climate change mitigation, environmental mitigation, and economic development.

OVERVIEW OF VALUE CATEGORIES



Energy: The study shows high energy value compared to other studies, driven by using EIA's "advanced gas turbine" with a high heat rate as the marginal resource. The natural gas price forecast is based on NYMEX forward market gas prices, then escalated at a constant rate. Energy losses are included in energy value, and are calculated on an hourly marginal basis.

Generation Capacity: Generation capacity value is DPV's effective capacity times the fixed costs of an "advanced gas turbine", assumed to be the marginal resource. Effective capacity based on ELCC; the reported ELCC is significantly higher than other studies. Every installed unit of DPV is given generation capacity value.

T&D Capacity: The study takes a two step approach: first, an economic screening to determine expansion plan costs and load growth expectations by geographic area, and second, an assessment of the correlation of DPV and load in the most promising locations.

Fuel Price Hedge: The study estimates hedge value as a combination of two financial instruments, risk-free zero-coupon bonds and a set of natural gas futures contracts, to represent the avoided cost of reducing fuel price volatility risk.

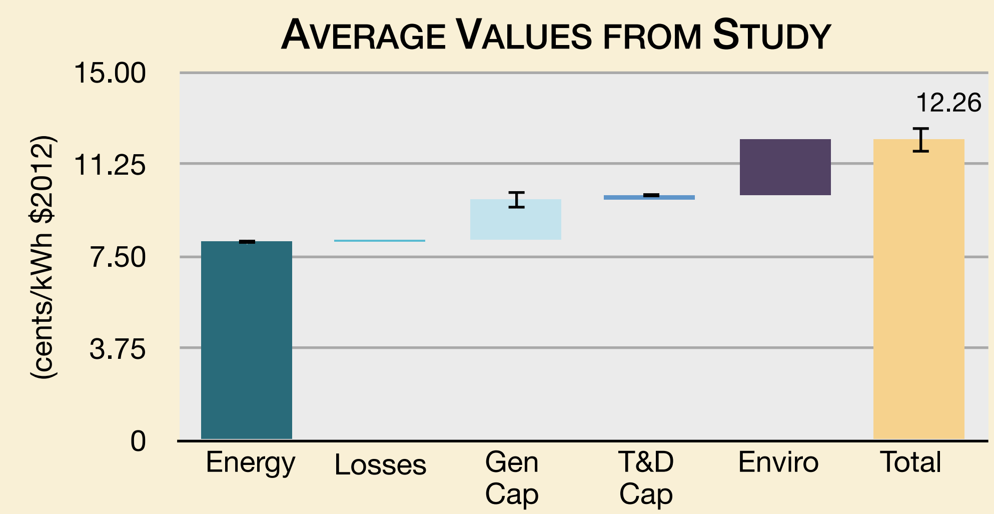
Environmental: The study quantified environmental value, as shown in the chart above, but did not include it in its final assessment of benefit since the study was from the utility perspective.

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To quantify the comprehensive value of DPV to Austin Energy (AE) in 2006 and document methodologies to assist AE in performing analysis as conditions change and, to apply to other technologies
GEOGRAPHIC FOCUS	Austin, TX
SYSTEM CONTEXT	Municipal utility
LEVEL OF SOLAR ANALYZED	>1% - 2%* system peak load
STAKEHOLDER PERSPECTIVE	Utility, ratepayer, participant, society
GRANULARITY OF ANALYSIS	• Solar characterization - Hourly PV output simulated for select PV configurations using irradiance data from hourly geostationary satellites; Validated using ground data from several climatically distinct locations including Austin, TX • Marginal resource/losses characterization - Energy: based on internal marginal energy cost provided by AE; • Geographic granularity - PV capacity value (ELCC) estimated system wide; Informed distribution avoided costs with area-specific distribution expansion plans "broken down by location and by the expenditure category"
TOOLS USED	Clean Power Research internal analysis; satellite solar data; PVFORM 4.0 for solar simulation; AE's load flow analysis for T&D losses

Highlights

- The study evaluated 7 benefits–energy production, line losses, generation capacity, T&D capacity, reactive power control (*grid support*), environment, natural gas price hedge (*financial*), and disaster recovery (*security*).
- The analysis assumed a 15 MW system in 7 PV system orientations, including 5 fixed and 2 single-axis.
- Avoided energy costs are the most significant source of value (about two-thirds of the total value), which is highly sensitive to the price of natural gas.
- Distribution capacity deferral value was relatively minimal. AE personnel estimated that 15% of the distribution capacity expansion plans have the potential to be deferred after the first ten years (assuming growth rates remain constant). Therefore, the study assumed that currently budgeted distribution projects were not deferrable, but the addition of PV could possibly defer distribution projects in the 11th year of the study period.
- Two studied values were excluded from the final results:
  - While reactive power benefits was estimated, the value ($0-$20/kW) was assumed not to justify the cost of the inverter that would be required to access the benefit (estimated cost not included).
  - The value of disaster recovery could be significant, but more work is needed before this value can be explicitly captured.

OVERVIEW OF VALUE CATEGORIES



Energy: PV output plus loss savings times marginal energy cost. Marginal energy costs are based on fuel and O&M costs of the generator most likely operating on the margin (typically, a combined cycle gas turbine).

System Losses: Computed differently depending upon benefit category. For all categories, loss savings are calculated hourly on the margin.

Generation Capacity: Cost of capacity times PV's effective load carrying capability (ELCC), taking into account loss savings.

Fuel price Hedge: Cost to eliminate the fuel price uncertainty associated with natural gas generation through procurement of commodity futures. Fuel price hedge value is included in the energy value.

T&D Capacity: Expected long-term T&D system capacity upgrade cost, divided by load growth, times financial term, times a factor that represents match between PV system output (adjusted for losses) and T&D system load.

Environmental: PV output times REC price—the incremental cost of offsetting a unit of conventional generation.

*ELCC was evaluated from 0%-20%; however, the ELCC estimate for 2% penetration was used in final value.

DESIGNING AUSTIN ENERGY'S SOLAR TARIFF USING A DISTRIBUTED PV CALCULATOR

STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To design a residential solar tariff based on the value of solar energy generated from DPV systems to Austin Energy
GEOGRAPHIC FOCUS	Austin, TX
SYSTEM CONTEXT	Municipal utility with access to ISO (ERCOT)
LEVEL OF SOLAR ANALYZED	Assumed to be 2012 levels of penetration (5 MW)[1] < 0.5% penetration by energy[2]
STAKEHOLDER PERSPECTIVE	Utility
GRANULARITY OF ANALYSIS	Assumed to replicate granularity of AE/CPR 2006 study
TOOLS USED	Clean Power Research's Distributed PV Value Calculator; Solar Anywhere, 2012

Highlights

- The study focused on 6 benefits–energy, generation capacity, fuel price hedge value (included in energy savings), T&D capacity, and environmental benefits–which represent "a 'break-even' value...at which the utility is economically neutral to whether it supplies such a unit of energy or obtains it from the customer." The approach, which builds on the 2006 CPR study, is "an avoided cost calculation at heart, but improves on [an avoided cost calculation]... by calculating a unique, annually adjusted value for distributed solar energy."

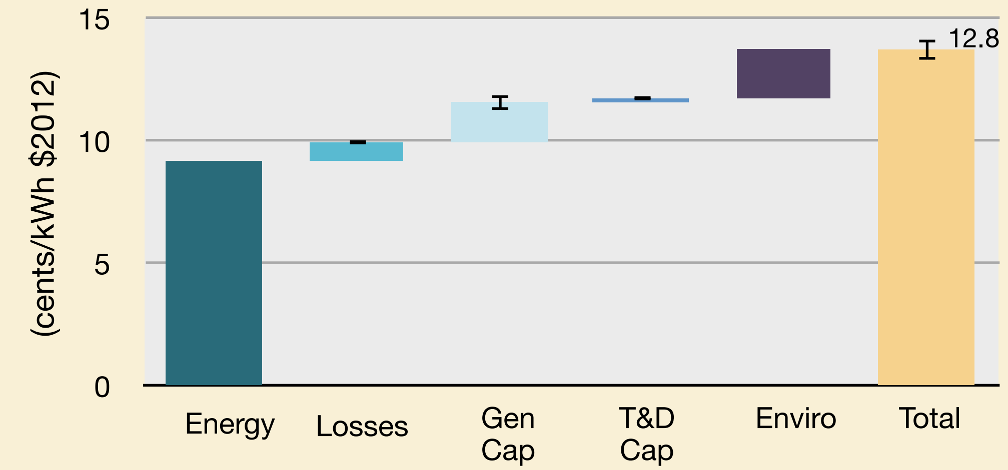
- The fixed, south-facing PV system with a 30-degree tilt, the most common configuration and orientation in AE's service territory of approximately 1,500 DPV systems, was used as the reference system.

- As with the AE/CPR 2006 study, avoided energy costs are the most significant source of value, which is very sensitive to natural gas price assumptions.

- The levelized value of solar was calculated to total $12.8/kWh.

- Two separate calculation approaches were used to estimate the near term and long term value, combined to represent the "total benefits of DPV to Austin Energy" over the life time of a DPV system.
  - For the the near term (2 years) value of DPV energy, A PV output weighted nodal price was used to try to capture the relatively good correlation between PV output and electricity demand (and high price) that is not captured in the average nodal price.
  - To value the DPV energy produced during the mid and long term–through the rest of the 30-year assumed life of solar PV systems–the typical value calculator methodology was used.

OVERVIEW OF VALUE CATEGORIES



Energy: DPV output plus loss savings times marginal energy cost. Marginal energy costs are based on fuel and O&M costs of the generator most likely operating on the margin (typically, a combined cycle gas turbine).

System Losses: Computed differently depending upon benefit category. For all categories, loss savings are calculated hourly on the margin.

Generation Capacity: Cost of capacity times PV's effective load carrying capability (ELCC), taking into account loss savings.

Fuel Price Hedge Value: Cost to eliminate the fuel price uncertainty associated with natural gas generation through procurement of commodity futures. Fuel price hedge value is included in the energy value.

T&D Capacity: Expected long-term T&D system capacity upgrade cost, divided by load growth, times financial term, times a factor that represents match between PV system output (adjusted for losses) and T&D system load.

Environmental: PV output times Renewable Energy Credit (REC) price—the incremental cost of offsetting a unit of conventional generation.

Sources:
1) http://www.austinenergy.com/About%20Us/Newsroom/Reports/solarGoalsUpdate.pdf
2) http://www.austinenergy.com/About%20Us/Newsroom/Reports/2012AnnualPerformanceReportDRAFT.pdf

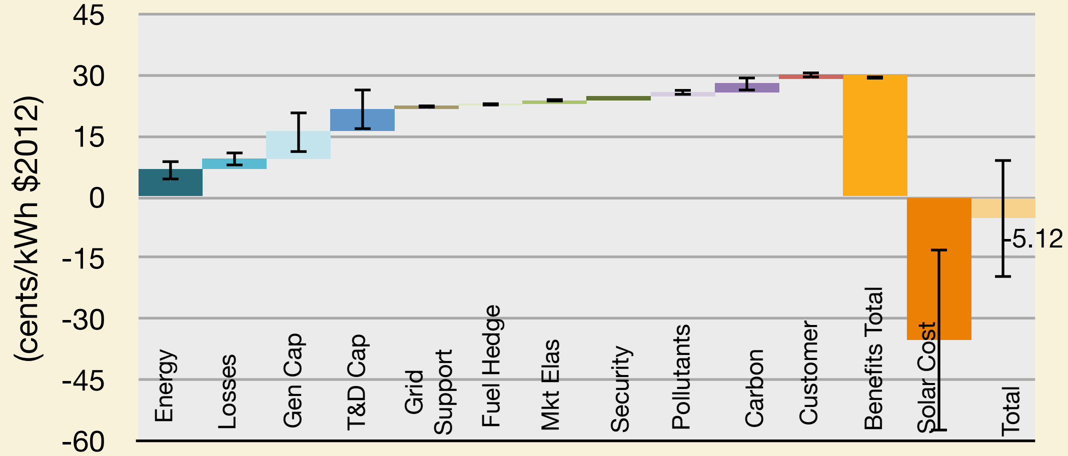
STUDY CHARACTERISTICS	
STUDY OBJECTIVE	To summarize and describe the methodologies and range of values for the costs and values of 19 services provided or needed by DPV from existing studies.
GEOGRAPHIC FOCUS	Studies reviewed reflected varying geographies; case studies from TX, CA, MN, WI, MD, NY, MA, and WA
SYSTEM CONTEXT	n/a
LEVEL OF SOLAR ANALYZED	n/a
STAKEHOLDER PERSPECTIVE	Participating customers, utilities, ratepayers, society
GRANULARITY OF ANALYSIS	This study is a meta-analysis, so reflects a range of levels of granularity.
TOOLS USED	Custom-designed Excel tool to compare results and sensitivities

Highlights

- There are 19 key values of distributed PV, but the study concludes that only 6 have significant benefits (energy, generation capacity, T&D costs, GHG emissions, criteria air pollutant emissions, and implicit value of PV).
- Deployment location and solar output profile are the most significant drivers of DPV value.
- Several values require additional R&D to establish a standardized quantification methodology.
- Value can be proactively increased.

OVERVIEW OF VALUE CATEGORIES

AVERAGE VALUES FROM STUDY



Energy: Energy value is fuel cost times the heat rate plus O&M costs for the marginal power plant, generally assumed to be natural gas.

System Losses: Avoided loss value is the amount of loss associated with energy, generation capacity, T&D capacity, and environmental impact, times the cost of that loss.

Generation Capacity: Generation capacity value is the capital cost of the marginal power plant times the effective capacity (ELCC) of DPV.

T&D Capacity: T&D capacity value is T&D investment plan costs times the value of money times the effective capacity, divided by load growth, levelized.

Grid Support Services (Ancillary Services): Ancillary services include VAR support, load following, operating reserves, and dispatch and scheduling. DPV is unlikely to be able to provide all of these.

Financial (Fuel Price Hedge, Market Price Response): Hedge value is the cost to guarantee a portion of electricity costs are fixed. Reduced demand for electricity decreases the price of electricity for all customers and creates a customer surplus.

Security: Customer reliability in the form of increased outage support can be realized, but only when DPV is coupled with storage.

Environment (Criteria Air Pollutants, Carbon): Value is either the market value of penalties or costs, or the value of avoided health costs and shortened lifetimes. Carbon value is the emission intensity of the marginal resource times the value of emissions.

Customer: Value to customer of having green option, as indicate by their willingness to pay.

Solar cost: Costs include capital cost of equipment plus fixed operating and maintenance costs.

SOURCES

05

STUDIES REVIEWED IN ANALYSIS

Study	Funded / Commissioned by	Prepared by
Xcel Energy, Inc. Costs and Benefits of Distributed Solar Generation on the Public Service Company of Colorado System. May 2013.	Xcel Energy	Xcel Energy
SAIC. 2013 Updated Solar PV Value Report. Arizona Public Service. May, 2013.	Arizona Public Service	SAIC
Beach, R., McGuire, P., The Benefits and Costs of Solar Distributed Generation for Arizona Public Service. Crossborder Energy May, 2013.		Crossborder Energy
Norris, B., Jones, N. *The Value of Distributed Solar Electric Generation to San Antonio.* Clean Power Research & Solar San Antonio, March 2013.	DOE Sunshot Initiative	Clean Power Research & Solar San Antonio
Beach, R., McGuire, P., *Evaluating the Benefits and Costs of Net Energy Metering for Residential Customers in California.* Crossborder Energy, Jan. 2013.	Vote Solar Initiative	Crossborder Energy
Rabago, K., Norris, B., Hoff, T., *Designing Austin Energy's Solar Tariff Using A Distributed PV Calculator.* Clean Power Research & Austin Energy, 2012.	Austin Energy	Clean Power Research & Austin Energy
Perez, R., Norris, B., Hoff, T., *The Value of Distributed Solar Electric Generation to New Jersey and Pennsylvania.* Clean Power Research, 2012.	The Mid-Atlantic Solar Energy Industries Association, & The Pennsylvania Solar Energy Industries Association	Clean Power Research
Mills, A., Wiser, R., *Changes in the Economic Value of Variable Generation at High Penetration Levels: A Pilot Case Study of California*. Lawrence Berkeley National Laboratory, June 2012.	DOE Office of Energy Efficiency and Renewable Energy and Office of Electricity Delivery and Energy Reliability	Lawrence Berkeley National Laboratory
Energy and Environmental Economics, Inc. Technical Potential for Local Distributed Photovoltaics in California, Preliminary Assessment. March 2012.	California Public Utilities Commission	Energy and Environmental Economics, Inc. (E3)
Energy and Environmental Economics, Inc.California Solar Initiative Cost-Effectiveness Evaluation. April 2011.	California Public Utilities Commission	Energy and Environmental Economics, Inc. (E3)
R.W. Beck, Arizona Public Service, *Distributed Renewable Energy Operating Impacts and Valuation Study.* Jan. 2009.	Arizona Public Service	R.W. Beck, Inc with Energized Solutions, LLC, Phasor Energy Company, Inc, & Summit Blue Consulting, LLC
Perez, R., Hoff, T., Energy and Capacity Valuation of Photovoltaic Power Generation in New York. Clean Power Research, March 2008.	Solar Alliance and the New York Solar Energy Industry Association	
Contreras, J.L., Frantzis, L., Blazewicz, S., Pinault, D., Sawyer, H., *Photovoltaics Value Analysis.* Navigant Consulting, Feb, 2008.	National Renewable Energy Laboratory	Navigant Consulting, Inc.
Hoff, T., Perez, R., Braun, G., Kuhn, M., Norris, B., *The Value of Distributed Photovoltaics to Austin Energy and the City of Austin.* Clean Power Research, March 2006.	Austin Energy	Clean Power Research
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ACRONYMS

AE - Austin Energy
APS - Arizona Public Service
AS - Ancillary Services
CCGT - Combined Cycle Gas Turbine
CHP - Combined Heat and Power
CPR - Clean Power Research
CT - Combustion Turbine
DER - Distributed Energy Resource
DPV - Distributed Photovoltaics
E3 - Energy + Environmental Economics
eLab - Electricity Innovation Lab
ELCC - Effective Load Carrying Capacity
FERC - Federal Energy Regulatory Commission
ISO - Independent System Operator
LBNL - Lawrence Berkeley National Laboratory
NREL - National Renewable Energy Laboratory
NYMEX - New York Mercantile Exchange
PV - Photovoltaic
RMI - Rocky Mountain Institute
SDG&E - San Diego Gas & Electric
SEPA - Solar Electric Power Association
SMUD - Sacramento Municipal Utility District
T&D - Transmission & Distribution
TOU - Time of Use