

September 7, 2006

**TO: Mike McArthur, Bill Drumheller**  
**FROM: RPS Discussion Group**

Dear Mike:

We are a group of consumer advocates, utilities, developers, and environmental groups that are members of the Renewable Energy Working Group (REWG) that you chair. As you are aware, we have had many discussions regarding the details of a Renewable Portfolio Standard (RPS) in Oregon. Our intent with this document is submit to the REWG, for its September 13<sup>th</sup> meeting in Hood River, the following issues for inclusion in the RPS that the Oregon Department of Energy is drafting.

This document is broken down into two sections. The first section features issues where there is agreement and the second features unresolved issues where the parties have different approaches and there is not yet consensus. We hope that this information will contribute to the discussion on September 13<sup>th</sup> regarding what the draft RPS should look like.

## **I. AREAS OF AGREEMENT**

### **A. Definitions**

**“Bundled”** means when electricity generated from eligible renewable resources is accompanied by its non-power attributes. If a qualifying utility buys both the electricity and the associated RECs from a qualifying resource, the power and RECs are considered bundled.

**“Delivered”** and **“Delivery”** mean the output of a renewable electricity generation facility that is generated at a location either 1) within the state or 2) out of state, but delivered to a qualifying entity’s transmission system or contracted point of receipt.

**"Load"** means the amount of kilowatt-hours of electricity that a qualifying utility delivered to its Oregon retail customers in the most recently completed year.

**"Non-power attributes"** means all environmentally related characteristics, exclusive of energy, capacity reliability, and other electrical power service attributes, that are associated with the generation of electricity from a renewable resource, including but not limited to the facility's fuel type, geographic location, vintage, qualification as an eligible renewable resource, and avoided emissions of pollutants to the air, soil, or water, and avoided emissions of carbon dioxide and other greenhouse gases.

**"Pacific Northwest"** has the same meaning as defined for the Bonneville Power Administration in section 3 of the Pacific Northwest electric power planning and conservation act (94 Stat. 2698; 16 U.S.C. 20 Sec. 839a).

**"Renewable energy credit"** means a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource where: the certificate includes all of the non-power attributes associated with that one megawatt-hour of electricity and the certificate is verified by a renewable energy credit tracking system selected by the commission.

**“Renewable Resource”**

There is general agreement that **“renewable resource”** means the following owned or contracted resources: (a) solar energy; (b) wind energy; (c) geothermal energy; (d) landfill gas; (e) wave, ocean, or tidal power; (f) gas from sewage treatment facilities; (g) fuel cells using only eligible renewable resources; (h) biomass energy based on animal waste or solid organic fuels from wood, forest, or field residues, or dedicated energy crops that do not include (1) wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic; or (2) municipal solid waste. Fossil fuels, nuclear fuels, or their derivatives are not eligible renewable resources.

**“Unbundled”** means separating electricity generated from eligible renewable resources from its accompanying non-power attributes. If a qualifying utility buys only electricity or RECs, but not both, from a qualifying resource, the power and REC are considered unbundled. Unbundled does not refer to separating out specific non-power attributes such as avoided emissions of carbon dioxide, mercury, nitrous oxide, sulfur dioxide, etc

B. Issues

**Power and RECs eligible to meet standard.**

Each qualifying entity will use bundled or unbundled RECs from an eligible renewable resource to meet the standard. Unbundled RECs used for compliance must come from eligible renewable resources located in the Pacific Northwest. For RECs from eligible renewable resources outside of the Pacific Northwest, both the power and RECs must be bundled and delivered to the qualifying entity. Each renewable energy credit may count only once towards either the requirements of an Oregon renewable portfolio standard or toward another state’s renewable portfolio standard.

Unbundled electricity from eligible renewable resources shall not be counted toward the standard.

Renewable energy or RECs sold to customers through a retail premium-priced renewable energy tariff shall not be counted toward a qualifying entity’s compliance with this rule.

A qualifying entity may not resell renewable energy credits and count those sold credits toward its obligation to meet this standard.

**Cost Recovery**

A qualifying entity regulated by the Commission is entitled to recover in rates all prudent costs incurred to comply with this standard. A regulated qualifying entity shall also

recover through rates its reasonable interconnection and transmission costs required to deliver renewable energy to retail customers in Oregon.

### **Protect Consumer-Owned Utilities' Access to BPA Tier I Resources**

It is agreed that nothing in this RPS should require consumer-owned utilities to forgo access to entitlements to already-established resources available through federal public-preference requirements (generally referred to as BPA's as-yet-defined Tier I product.)

### **Cost Cap**

There is agreement that the RPS should include some kind of cost cap. It is also agreed that calculations for determining the applicable amount of above market costs to be counted towards the cost cap include those costs that make the two resources comparable on a delivered basis. We did reach consensus on that fact that the cost cap should adjust with changes in the baseline. However, here is still disagreement on how exactly the cost cap should be structured. The cost cap is not a hard cap, per se, but is a financial cap which a qualified entity is not obligated to exceed, but may do so and must subsequently make a case for rate recovery showing that those additional expenditures were prudently incurred. (Some options are presented below)

## **II. UNRESOLVED ISSUES**

Below are questions that remain regarding several critical issues. We hope that these can be discussed at the REWG meeting on September 13<sup>th</sup>.

### **Defining Renewable Resource**

→ Unresolved issues:

#### Biomass:

Questions still remain about whether to include (a) black liquor byproduct from paper production and (b) woody biomass from old growth forests among eligible biomass resources.

#### Hydro:

Remaining hydro issues to resolve: (1) low-impact, small hydro – what should the size limit be and should only small hydro that is certified as low-impact be eligible?

(2) Can utilities count only incremental improvements at existing hydroelectric facilities that they own or can they count their portion of upgrades at a contracted hydro resource? What about counting RECs from hydro upgrades?

### **Date of eligible renewable resource**

In an effort to determine how many megawatts of existing renewable resources are allowed to meet the RPS, it is critical to determine a cut-off date. At the August 15<sup>th</sup> REWG meeting, two dates were discussed: 1) drawing the line at 1998 to capture the region's first new utility-scale renewable facilities (Vansycle wind project in OR and Foote Creek in WY) and 2) going back to 1981 to coincide with the NW Power Act.

The following is as an illustration of how existing resource might impact the 25% RPS. (These are based on the Northwest Power and Conservation Council figures at <http://www.nwcouncil.org/energy/powersupply/existingprojects.xls>.)

We estimate that 2,100 average MW are needed to meet the goal of a 25% RPS by 2025. The total of all existing large and small hydro, black liquor, wood-fired, biogas, wind and geothermal plants in the northwest that have come on line since 1981 equals 1,468 aMW. This means that 67.3% of the 25% RPS goal could be met by purchasing green tags from these preexisting resources. The total amount of these same facilities that have come online since 1998 equals 639 aMW, or 30.4% of the total 2,100 aMW.

If the goal of the RPS is to advance new renewable technologies, then the amount of MW from existing facilities should be limited. If the goal of the RPS is to achieve resource diversity this example illustrates that if all existing renewable facilities in the northwest were committed to Oregon, resource diversity would be achieved.

### **Cost Cap**

Several options were discussed as to what base to apply a cost cap percentage target to. One is to have the cost cap percentage target apply to the qualified utilities total revenue requirement and another is to apply the cost cap percentage to total power costs. A third concept asked if there be a “cost effectiveness” standard underneath a cost cap. The concept here is should any single resource acquisition decision be constrained by not exceeding a set percentage over the costs of its cost cap comparable.

In addition, should investments in emerging generation technology and/or energy efficiency be counted towards the cost cap?

Regarding what should be the targeted cost cap percentage no consensus has been reached at this time given the fact that too many other components of the RPS standard have not been settled.

### **Banking of RECs**

Several proposals regarding the vintage of eligible RECs have been discussed:

1) For any given year the requirements may be met with RECs produced during that year, the preceding year, or the following year.

2) RECs from any eligible renewable resource may be traded or banked, but in an effort to encourage early action, a qualifying entity must surrender the oldest RECs first in subsequent compliance filings (i.e., ‘First-in-First-Out’).

3) For any given year the requirements may be met with unbundled RECs produced during that year, the preceding year, or the following year. Additionally, bundled RECs from any renewable resource may be banked and used to meet subsequent compliance

requirements, but a qualifying entity must surrender the oldest RECs first in subsequent compliance filings (i.e., ‘First-in-First-Out’).

### **Interim Targets**

While the 25% by 2025 would remain set, there are several proposals for how to determine the interim targets. One option is to have no interim targets. Another is to have only two interim targets that would be rigid in that the PUC would not be allowed to adjust the targets. A third option is to have three or four interim targets but to allow flexibility so that the PUC could adjust them if needed.

### **Utility Eligibility**

**Should “Qualifying Entity”** mean (1) a utility serving retail customers in Oregon with an annual electric load of [XX] average megawatts or more; (i2) any electric service supplier serving direct access customers in Oregon; or (3) any direct service industrial customer in Oregon.

→ Additional issue:

What is the right threshold for determining utility eligibility: aMW or number of customers?

### **PURPA Qualifying Facilities**

There is a critical question regarding how to treat RECs from PURPA facilities. Currently, OR law does not allow utilities to purchase RECs from QFs if they result in any above market costs . Given that the PUC has also ruled that developer own tags from PURPA project, this is a conflict and there is currently no way for a utility to count a REC from a QF toward RPS compliance. This should be addresses either in the RPS or in accompanying legislation.

One proposal would allow a regulated utility to have first right of refusal on purchasing any RECs from a QF, as long as the avoided cost paid by the utility is adjusted to reflect the avoided cost the utility would have otherwise incurred purchasing bundled renewable electricity.