Renewables Portfolio Standards in the United States: A Status Update

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Washington D.C.
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Presentation Outline

1) Overview of State RPS Landscape

2) Impacts on Renewables Development

3) Compliance Experience and Related Issues and Challenges
What Is a Renewables Portfolio Standard?

Renewables Portfolio Standard (RPS):

- A requirement on retail electric suppliers...
- to supply a minimum percentage or amount of their retail load...
- with eligible sources of renewable energy.

*Typically* backed with penalties of some form

*Often* accompanied by a tradable renewable energy credit (REC) program, to facilitate compliance

*Never* designed the same in any two states
RPS Policies Exist in 29 States and D.C.; 7 More States Have Non-Binding Goals

Most policies established through state legislation, but some initially through regulatory action (NY, AZ) or ballot initiatives (CO, MO, WA)

Source: Berkeley Lab

Notes: Compliance years are designated by the calendar year in which they begin. Mandatory standards or non-binding goals also exist in US territories (American Samoa, Guam, Puerto Rico, US Virgin Islands)
Several States Have Adopted Broader Clean Energy Standards or Efficiency Standards

• Clean energy standards (CES’) adopted in parallel to RPS (MI, OH, PA) or in lieu of an RPS (WV)

• IN has a voluntary clean energy goal

• Many states have adopted stand-alone energy efficiency (EE) resource standards or allow EE to qualify within an RPS or CES

Source: NREL
Existing RPS’ Apply to 54% of Total U.S. Retail Electricity Sales in 2012

U.S. Electrical Load with Active State RPS Obligations
(Historical and Projected)
State RPS Policies Feature Significant Design Differences

- Renewable purchase targets and timeframes
- Entities obligated to meet RPS, and use of exemptions
- Eligibility of different renewable technologies
- Whether existing renewable projects qualify
- Treatment of out-of-state generators
- Whether technology set-asides or other tiers are used
- Use of credit multipliers for favored technologies
- Allowance for RECs, and REC definitions
- Methods to enforce compliance
- Existence and design of cost caps
- Compliance flexibility rules, and waivers from compliance
- Contracting requirements and degree of regulatory oversight
- Compliance filing and approval requirements
- Compliance cost recovery
- Role of state funding mechanisms
RPS Increasingly Designed to Support Resource Diversity: Most Commonly Solar and DG

**16 states + D.C.** have solar or DG set-asides, sometimes combined with credit multipliers; 3 other states only have credit multipliers

- **WA**: 2x multiplier for DG
- **OR**: 20 MW solar PV by 2020
  - 2x multiplier for PV installed before 2016
- **NV**: 1.5% solar by 2025
  - 2.4x multiplier for central PV
  - 2.45x multiplier for distributed PV
- **CO**: 3% DG by 2020 for IOUs
  - (half from retail DG)
  - 3x multiplier for co-ops and munis for solar installed before July 2015
- **MI**: 3x multiplier for solar
- **NY**: 640 GWh retail DG by 2015
- **NJ**: 4.1% solar electric by 2027
- **PA**: 0.5% solar PV by 2020
- **OH**: 0.5% solar electric by 2024
- **IL**: 1.5% solar PV by 2025, 1% DG by 2015 (50% <25 kW)
- **MO**: 0.3% solar electric by 2021
- **DC**: 2.5% solar by 2020
- **NC**: 0.2% solar by 2018
- **TX**: 2x multiplier for all non-wind

Source: Berkeley Lab

Note: Compliance years are designated by the calendar year in which they begin

Differential support for solar/DG provided via long-term contracting programs (CT, DE, NJ, and RI) and via up-front incentives/SREC payments

Ten states created solar/ DG set-asides since 2007:
- DE, IL, MA, MD, MO, NC, NH, NM, OH, OR
Enactment of New RPS Policies is Waning, But States Continue to Hone Existing Policies

Enactment (above timeline)
Major Revisions (below timeline)
Year of First Requirement
State-Specific RPS Developments (2011-2012)

- CA: Increased/extended RPS to 33% by 2020 with specified limits on unbundled RECs and firmed/shaped products
- CT: Introduced long-term REC contracting program for small renewables
- DC: Increased solar set-aside; adopted declining SACP schedule; restricted solar set-aside eligibility to projects <5 MW connected to DC distribution system
- DE: Transferred compliance obligation to regulated distribution service provider; created long-term SREC contracting program
- IL: Created DG set-aside with procurement by IPA under multi-year contracts
- MA: Adopted 10-year declining SACP schedule with 5% annual reductions, and tightened biomass eligibility rules
- MD: Accelerated solar set-aside, and expanded solar set-aside eligibility to include solar water heating; expanded Tier 1 eligibility to include waste-to-energy and several others
- NC: Expanded eligibility to include direct load control/demand response
- NJ: Accelerated solar set-aside; established 15-year SACP schedule; extended SREC lifetime
- NH: Created carve-out for thermal energy resources; reduced Class I targets while increasing targets for Class III and IV; reduced ACPs for most tiers; loosened Class I eligibility rules
- OH: Expanded eligibility to include waste energy recovery and several specific cogeneration plants
- WI: Expanded eligibility to include new large hydropower
General Trends in Recent RPS Revisions

• Expanding resource eligibility (waste-to-energy, hydropower, biomass co-firing, solar thermal)
• Increased stringency of RPS purchase targets (though momentum has slowed)
• Adoption of resource-specific set-asides (though momentum there has also slowed)
• Honing solar set-aside provisions
  – Eligibility rules (size, location, etc.)
  – SACP schedules
  – Contracting mechanisms
• Efforts to address REC oversupply/volatility (especially SRECs – e.g., by accelerating or increasing targets)
Political and Legal Challenges to RPS Policies Have Been Mounting

- Legislation in roughly ten states was introduced in 2011-2012 to repeal or roll-back RPS policies
  - None of these efforts have succeeded to-date
- While other legislation has sought revisions that may result in a “weakening” RPS policies
  - E.g., by expanding eligibility, reducing ACPs
- Legal issues have also been raised in court cases and regulatory proceedings
  - Commerce Clause issues, often tied to geographic eligibility rules (MA, CO, CA, MO)
  - Challenges to the jurisdictional authority of the PUC to enact an RPS (AZ)
Presentation Outline

1) Overview of State RPS Landscape

2) Impacts on Renewables Development

3) Compliance Experience and Related Issues and Challenges
Experience with State RPS Compliance Obligations is Growing

Operational Experience with State RPS Policies
(number of major compliance years completed-to-date)

< 1 year
1 – 2 years
3 – 4 years
5 – 6 years
7 – 8 years
> 8 years

Michigan
Missouri
Kansas
Oregon
Washington
North Carolina

Hawaii
Illinois
Montana
New Hampshire
Ohio

Colorado
Delaware
Maryland
New York
New Mexico
Pennsylvania
Rhode Island
Washington D.C.

Connecticut
Minnesota
Wisconsin

Arizona
California
Iowa
Maine
Massachusetts
Nevada
New Jersey
Texas
New Hampshire
Ohio
Washington D.C.

Environmental Energy Technologies Division • Energy Analysis Department
State RPS Policies Appear to Be Motivating Substantial Renewable Capacity Development

Cumulative and Annual Non-Hydro Renewable Energy Capacity in RPS and Non-RPS States, Nationally

Though not an ideal metric for RPS-impact, 63% of the 53 GW of non-hydro renewable additions from 1998-2011 (33 GW) occurred in states with active/impending RPS compliance obligations.
State RPS’ Have Largely Supported Wind, Though Solar Has Become More Prominent

RPS-Motivated* Renewable Energy Capacity Additions from 1998-2011, by Technology Type

* Renewable additions are counted as “RPS-motivated” if and only if they are located in a state with an RPS policy and commercial operation began no more than one year before the first year of RPS compliance obligations in that state. On an energy (as opposed to capacity) basis, wind energy represents approximately 86%, biomass 8%, geothermal 3%, and solar 3% of cumulative RPS-motivated renewable energy additions from 1998-2011, if estimated based on assumed capacity factors.
RPS Resource Diversity Is Greater in Some Regions, but Still Remains Limited

RPS-Motivated* Renewable Energy Capacity Additions from 1998-2011, by Region and Technology Type

*Renewable additions are counted as “RPS-motivated” if and only if they are located in a state with an RPS policy and commercial operation began no more than one year before the first calendar year of RPS compliance obligations in the host state.
Impact of Solar/DG Set-Asides Is Growing: 1,500 MW_{ac} PV from 2000-2011

Set-aside also benefiting solar-thermal electric (CSP): 1 MW (Arizona) constructed in 2006 and 64 MW (Nevada) in 2007
Solar Becoming An Increasingly Competitive Resource for General RPS Obligations

Wind facing increased competition in California from solar; same is true elsewhere in SW and, to a lesser extent, in other regions

Increased competition driven by price reductions for utility-scale solar, as well as by relative ease of siting and delivery

<table>
<thead>
<tr>
<th>Energy Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Wind</td>
<td>46%</td>
</tr>
<tr>
<td>Solar</td>
<td>49%</td>
</tr>
<tr>
<td>Geothermal</td>
<td>1%</td>
</tr>
<tr>
<td>Biomass/MSW</td>
<td>3%</td>
</tr>
<tr>
<td>Small hydro</td>
<td>&lt;1%</td>
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</tbody>
</table>

More than 20 GW of contracts with new renewable generators signed in California since 2002*

*Based on CPUC RPS contract database for IOUs and analysis of contract announcements by POUs
Future Impacts of Existing RPS Policies Are Projected To Be Relatively Sizable

~93 GW of new* RE by 2035, if full compliance is achieved (102 GW including voluntary goals)

6% of projected generation in 2035; 32% of projected load growth from 2000-2035

* “new RE” is defined based on state-specific distinctions between new vs. existing or on the year in which the RPS was enacted; it does not represent new renewables relative to current supply
Recent RE capacity additions vs. RE additions required to meet current state RPS policies and proposed Federal RPS

<table>
<thead>
<tr>
<th>Description</th>
<th>Capacity (GW/yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent Renewable Capacity Additions (2008-2011)</td>
<td>6-11</td>
</tr>
<tr>
<td>Average Annual Renewable Capacity Additions (2012-2020)</td>
<td></td>
</tr>
<tr>
<td>State RPS Requirements</td>
<td>4-5</td>
</tr>
<tr>
<td>Proposed Federal RPS (Bingaman 2010) + State RPS</td>
<td>4-11</td>
</tr>
</tbody>
</table>

- Continued growth at 2008-11 rate exceeds level required to meet state RPS; would be sufficient to meet the most recent Federal RPS proposal.
- Federal clean energy standards (CES) could yield more or less RE capacity than historical growth, depending on the specific proposal.
- New/increased state RPS policies appear less likely going forward in near term (policy weakening possible).
- Demand from non-RPS markets (green power, IRP, least cost) needed to maintain 2008-11 installation rate.
Future Impacts of Solar/DG Set-Asides Are Also Projected To Be Substantial

- Cumulative capacity requirement grows to **8,500 MW** by 2025
- Required average annual solar capacity additions of **750 MW/yr** from 2012-15, **450 MW/yr** from 2016-25
Presentation Outline

1) Overview of State RPS Landscape
2) Impacts on Renewables Development
3) Compliance Experience and Related Issues and Challenges
Targets Largely Met with Renewable Energy or RECs; Isolated Struggles Apparent

Percent of RPS Target Met with Renewable Electricity or RECs (including available credit multipliers and banking, but excluding ACPs and borrowing)

Note: Percentages less than 100% do not necessarily indicate that “full compliance” was not technically achieved, because of ACP compliance options, funding limits, or force majeure events.
Achievement of Solar/DG Set-Aside Targets Has Steadily Increased in Many States

States with Large (>150 MW) Solar/DG Targets in 2011

Percent of Solar/DG Target Met with Solar/DG Electricity or RECs

AZ (225 MW)*
CO (231 MW)*
NJ (336 MW)*
NV (170 MW)*
NY (227 MW)*

*Equivalent solar/DG capacity (MW) required in 2011 at a 15% capacity factor

Note: "Percent of Solar/DG Target Met with Solar/DG Electricity or RECs" excludes ACPs but includes applicable credit multipliers. In cases where this figure is below 100%, suppliers may not have been technically out of compliance due to solar ACP compliance options, funding limits, and force majeure provisions.

Retirement of solar electricity/RECs relative to set-aside requirements has often been mixed in initial compliance years.
REC Prices Are Volatile, Creating Challenges for RE Project Financing

- REC prices historically volatile, and dropped substantially in many regions recently (main tier and solar RECs)
- Depressed REC prices reflect “over-supply” for RPS needs in some markets
  - Wholesale electricity prices have also declined substantially over the same period…
  - In concert with low REC prices, makes RE economics more challenging in near term, despite drop in RE costs
- States have considered and implemented various measures to mitigate these effects
  - Increasing or accelerating RPS targets
  - Long-term contracting programs/requirements
  - Price support mechanisms
  - Various other approaches
Main Tier and Class I RECs

Sources: Evolution Markets (through 2007) and Spectron (2008 onward). Plotted values are the last trade (if available) or the mid-point of Bid and Offer prices, for the current or nearest future compliance year traded in each month.
Solar RECs

Sources: Spectron, SRECTrade, Flett Exchange, PJM-GATS, and NJ Clean Energy Program. Depending on the source used, plotted values are either the mid-point of monthly average bid and offer prices, the average monthly closing price, or the weighted average price of all RECs transacted in the month, and generally refer to SREC prices for the current or nearest future compliance year traded in each month.
Rate Impacts of State RPS Policies Have Generally Been ‘Modest’ So Far (< 5%)

Translating REC prices or state-specific funding to rate impacts in 2009 and 2010 yields the results shown below.

- Rate impacts differ due to target levels, REC/ACP prices, and presence of set-asides.
- Rate impacts in some states (AZ, CO, NY) include up-front incentives for solar/DG, which contribute to compliance in future years.
- Rate impacts of RPS policies in states that are dominated by long-term contracts are generally unknown, but anecdotal evidence suggests limited impacts so far, and quite possibly even rate reductions in several states.

States not included if data on incremental RPS compliance costs are unavailable (CA, IA, HI, MN, MT, NC, NM, NV, OH, TX, WI) or if RPS did not apply in 2009-10 (KS, MI, MO, OR, WA).
Given Uncertainty in Future Costs, Cost Caps of Various Designs Are Common

1) **ACP with automatic cost recovery**: MA, ME, NH, NJ, RI
2) **ACP with possible cost recovery**: DC, DE, MD, OR
3) **Retail rate / revenue requirement cap**: CO, KS, IL, MD, MO, NM, OH, OR, WA
4) **Renewable energy contract price cap**: MT, NM
5) **Per-customer cost cap**: MI, NC, NM
6) **Renewable energy fund cap**: NY
7) **Financial penalty may serve as cost cap**: CT, HI, OH, PA, TX

**Emerging cost-containment issues:**
- Challenges in calculating “incremental” RPS procurement costs in order to assess whether cap is reached (especially with bundled RE contracts)
- Costs for wind/solar have declined, but shale gas has reduced electricity market prices → net impact on incremental RPS costs, as well as on whether cost caps are limiting, TBD
Most States Have Capped Rate Impacts Well Below 10% (13 States Below 5%)

Many states cost containment mechanisms can be translated into an estimated maximum increase in retail rates

- No explicit cap on incremental compliance costs in 8 states (AZ, CA, IA, KS, HI, NV, PA, WI), though KS caps gross RPS procurement costs and CA is currently developing its cost containment mechanism.
RPS Compliance Experience-to-Date: In a Nutshell

- Growing experience with active compliance obligations, though many states still at relatively early stage in trajectory
- Generally high levels of compliance achieved thus far, and over-supply exists in a number of states (particularly for solar set-asides)
- REC price volatility and long-term contracting needs are perennial challenges, but states have made progress in addressing issues
- Significant RE growth required, but well in-line with pace of RE additions in recent years
- Compliance costs have thus far remained relatively modest, but concerns exist about increasing costs and potentially binding cost caps
Other Emerging and Continuing Issues Facing State RPS Programs

- Addressing the dual desires for liquid RE markets and in-state benefits in the face of the Commerce Clause
- Managing and anticipating interactions between state and possible future Federal policies (or changes to existing Federal policies)
- Addressing the other barriers to renewable energy deployment: transmission, integration, siting, etc.
Thank You!

For further information:

LBNL renewable energy publications:
http://emp.lbl.gov/research-areas/renewable-energy

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Extra Slides
Structure of RPS: RPS Compliance Models Vary Substantially

**Regulated Markets**
- Dominated by long-term bundled contracts for electricity and RECs
- Utility RFP solicitations or bilateral negotiations, with regulatory oversight

**Restructured Markets**
- More often dominated by short-term trade in RECs, without PUC oversight
- Developers often sell electricity and RECs separately

Two states require a government-directed agency to conduct procurements under the RPS: New York and Illinois
RPS Policies Are Increasingly Being Designed to Support Resource Diversity

**Set Asides:** Requirements that some portion of the RPS come from certain technologies, technology types, or applications

**Credit Multipliers:** Provides selected technologies or applications more credit than other forms of generation towards meeting the RPS

**Resource-Specific Contracting Targets:** Requirements that regulated utilities enter into long-term contracts for minimum quantities of specific resource types

<table>
<thead>
<tr>
<th>General Technology</th>
<th>Specific Technology</th>
<th>Specific Application</th>
<th>Credit Multipliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I vs. II: CT, DC, DE, MA, MD, ME, NH, NJ</td>
<td>Solar Energy: DC, DE, IL, MA, MD, MO, NC, NH, NJ, NM, NV, OH, OR, PA</td>
<td>Distributed Generation: AZ, CO, IL, NM, NY</td>
<td>Solar Energy: DE (general RPS), MI, CO (POUs), NV (PV), OR</td>
</tr>
<tr>
<td>Wind Energy: IL, ME (goal), MN, NJ (offshore), NM</td>
<td>Existing Biomass/Methane: NH</td>
<td>Community Ownership: MN (goal), MT (wind), OR (goal, community and small scale)</td>
<td>Wind Energy: DC, MD, DE (offshore)</td>
</tr>
<tr>
<td>Existing Hydropower: NH</td>
<td>Thermal: NH</td>
<td></td>
<td>Methane: DC, MD</td>
</tr>
<tr>
<td>Geothermal or Biomass: NM</td>
<td>Swine Waste: NC</td>
<td></td>
<td>Fuel Cells: DE</td>
</tr>
<tr>
<td>Non-Wind: TX (goal)</td>
<td></td>
<td>Non-Wind: TX</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Distributed Generation: NV (PV), WA</td>
<td></td>
</tr>
</tbody>
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**No Differential Support:** CA, HI, IA, KS, WI
Geographic Eligibility and Electricity Delivery Rules Vary Considerably

Variation reflects differing:

- wholesale market structure and geography
- state interests in supporting in-state or in-region RE
- interpretations of the requirements imposed by the Interstate Commerce Clause

**Table provides examples:**
many states employ multiple requirements, and therefore would fit in multiple rows

<table>
<thead>
<tr>
<th>Geographic Eligibility and Delivery Requirements (Main Tier)</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-state generation requirement</td>
<td>HI, IA</td>
</tr>
<tr>
<td>In-region generation requirement</td>
<td>DC, MI, MN, OR, PA</td>
</tr>
<tr>
<td>Electricity delivery required to state or to LSE</td>
<td>TX</td>
</tr>
<tr>
<td>Direct transmission inter-tie between generators and state</td>
<td></td>
</tr>
<tr>
<td>Broader delivery requirements to state or to LSE</td>
<td>AZ, CA, KS, MT, NM, NV, NY, OH, WI</td>
</tr>
<tr>
<td>Electricity delivery required to broader region</td>
<td>DE, ME, NJ, WA</td>
</tr>
<tr>
<td>Generators anywhere outside region must deliver electricity to region</td>
<td></td>
</tr>
<tr>
<td>Generators in limited areas outside region must deliver electricity to region</td>
<td>CT, DC, MA, MD, NH, RI</td>
</tr>
<tr>
<td>In-state generation encouragement</td>
<td></td>
</tr>
<tr>
<td>In-state multipliers</td>
<td>CO, MO</td>
</tr>
<tr>
<td>Cost-effectiveness test</td>
<td>IL</td>
</tr>
<tr>
<td>Limit on RECs from out-of-state generators</td>
<td>NC</td>
</tr>
</tbody>
</table>
Enforcement Actions Have Thus Far Been Limited

- Enforcement mechanisms vary, and one should not assume that strictly failing to meet RPS targets leads to enforcement actions.

<table>
<thead>
<tr>
<th>Enforcement Mechanisms</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP, Automatic Cost Recovery</td>
<td>MA, ME, NH, NJ, RI</td>
</tr>
<tr>
<td>ACP, Possible Cost Recovery</td>
<td>DC, DE, MD, OR</td>
</tr>
<tr>
<td>Explicit Financial Penalties, No Automatic Cost Recovery</td>
<td>CA, CT, KS, MI, MO, MT, PA, OH, TX, WA, WI</td>
</tr>
<tr>
<td>Discretionary Financial Penalties, No Cost Recovery</td>
<td>AZ, CO, HI, MN, NV</td>
</tr>
<tr>
<td>Enforcement at PUC Discretion</td>
<td>NC, NM</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>IA, IL, NY</td>
</tr>
</tbody>
</table>

- Alternative compliance payments (ACPs) totaled $66 million in 2010.
- Penalties have been levied in CA, CT, MT, OH, PA, and TX.
- Lack of compliance has sometimes been excused.