RPS Cost Containment Options

State-Federal RPS Collaborative Webinar

Hosted by Clean Energy States Alliance
April 24, 2012
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- This webinar is being recorded and will be made available after the call on the CESA website at

www.cleanenergystates.org/projects/state-federal-rps-collaborative
State-Federal RPS Collaborative

- With funding from the Energy Foundation and the US Department of Energy, the Clean Energy States Alliance facilitates the Collaborative.
- Includes state RPS administrators and regulators, federal agency representatives, and other stakeholders.
- Advances dialogue and learning about RPS programs by examining the challenges and potential solutions for successful implementation of state RPS programs, including identification of best practices.
- To get the monthly newsletter and announcements of upcoming events, sign up for the listserv at: www.cleanenergystates.org/projects/state-federal-rps-collaborative
RPS Cost Containment Options

Presenters:

• Brendan Pierpont, Analyst, Climate Policy Initiative
• R. Dwight Lamberson, Economist, New Mexico Public Regulation Commission
• Rebecca O’Neil, Senior Policy Analyst, Oregon Department of Energy

www.cleanenergystates.org
Contact Information

www.cleanenergystates.org

Warren Leon
Phone: 978-317-4559
Email: WLeon@cleanegroup.org
Limiting the Cost of Renewables

Lessons for RPS Policies

Brendan Pierpont
Clean Energy States Alliance Webinar
April 24, 2012
1. Key Lessons Learned
2. What Are Cost Limits?
3. Effectiveness Criteria
4. Evaluation
5. Final Thoughts
1. Key Lessons Learned
2. What Are Cost Limits?
3. Effectiveness Criteria
4. Evaluation
5. Final Thoughts
Key Lessons Learned

Limiting costs is not the same as minimizing costs

Cost limits can insure against high policy costs

This insurance is not free

Cost limits do not always reflect policy ambition

Cost limits sometimes fail to insure against high costs

Appropriate design depends on policy and market context
1. Key Lessons Learned
2. What Are Cost Limits?
3. Effectiveness Criteria
4. Evaluation
5. Final Thoughts
## Objectives of Cost Limits

<table>
<thead>
<tr>
<th>Objective</th>
<th>Example of Approach</th>
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<tbody>
<tr>
<td>“Release valve” for prices</td>
<td>Alternative compliance payment</td>
</tr>
<tr>
<td>Codify budgetary or political cost constraints</td>
<td>Retail rate or revenue requirement impact cap</td>
</tr>
<tr>
<td></td>
<td>Renewable energy fund cap</td>
</tr>
<tr>
<td>Protect ratepayers</td>
<td>All approaches</td>
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## Approaches Used to Limit Costs

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
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<tbody>
<tr>
<td>Alternative compliance payment</td>
<td>Payment to meet compliance obligations, rather than retiring RECs</td>
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<tr>
<td></td>
<td>Creates de facto REC price ceiling</td>
</tr>
<tr>
<td>Contract price cap</td>
<td>Price of contracts limited by statute or regulation</td>
</tr>
<tr>
<td>Retail rate or revenue requirement impact cap</td>
<td>Maximum percentage change in retail rates, or percentage of revenue requirement used for renewables</td>
</tr>
<tr>
<td>Renewable energy fund cap</td>
<td>Pre-determined amount of available funding</td>
</tr>
<tr>
<td>Other approaches</td>
<td>Regulatory discretion to ensure “just and reasonable rates”</td>
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<tr>
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<td>PURPA avoided cost tests</td>
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<td></td>
<td>Force majeure, other “off-ramps”</td>
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Current Approaches

- **Alternative compliance payment**
  - CT, DC, DE, IL, MA, MD, ME, NH, NJ, OR, OH, PA, RI, TX

- **Rate impact, per customer, or revenue requirement cap**
  - CO, DE, IL, KS, MD, MI, MO, NC, NM, OH, OR, WA

- **Renewable energy contract price cap**
  - MT, (formerly NM)

- **Renewable energy fund cap**
  - NY, (formerly CA)

- **Other RPS states**
  - AZ, CA, HI, IA, MN, NV, WI

*Sources: Stockmayer, Finch, Komor, Mignogna (2012), Wiser and Barbose (2011), DSIRE Database*
1. Key Lessons Learned
2. What Are Cost Limits?
3. Effectiveness Criteria
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5. Final Thoughts
What Does an Effective Cost Limit Do?

- Insures against high costs
- Minimizes policy costs
- Supports achievement of renewable energy targets
## Effectiveness Criteria

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<th>Insures Against High Costs</th>
<th>Minimizes Policy Costs</th>
<th>Supports Achievement of Targets</th>
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<td>Binding cost limit</td>
<td>All relevant costs and benefits covered</td>
<td>Enables target achievement</td>
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<td>Incentives to reduce costs</td>
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<td>Predictable consequences</td>
<td>Efficient market operation</td>
<td>Allows for uncertainty in costs</td>
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### Effectiveness Criteria

**Insures Against High Costs**
- Binding cost limit
- Clearly defined scope
- Predictable consequences

**Minimizes Policy Costs**
- All relevant costs and benefits covered
- Incentives to reduce costs
- Efficient market operation
- Economies of scale and financing

**Supports Achievement of Targets**
- Enables target achievement
- Set commensurate with expected cost
- Allows for uncertainty in costs
- Ratepayers bear appropriate risks
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## Alternative compliance payment

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### Key Takeaways:

- Simple, well-defined mechanism functions as a “release valve” on tradable REC prices
- Cost-effectiveness driven by procurement approach, not ACP
- Allows policy compliance without renewable energy generation
Contract price cap

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Key Takeaways:

- Has been treated by market participants as a price floor, rather than price ceiling.
- Often set at levels that impede procurement of renewable energy.
Retail rate or revenue requirement impact cap

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Key Takeaways:

- Often complex and ambiguously defined
- Sometimes determined politically, and not set based on expected costs
- Sometimes constrains procurement, sometimes costs exceed cap
Renewable energy fund cap

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Key Takeaways:

- Funding increased, or new sources of funding authorized, when costs exceed cap
- Inconsistency in implementation can increase market uncertainty
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Lessons Learned

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Appropriate design depends on policy and market context
What can regulators do?

Don’t rely on cost limits to drive cost-effectiveness of policy

Don’t use cost limits to constrain policy ambition, only use to protect ratepayers against key risks

Avoid distorting the market with public, contract-level price signals

Choose a cost limit approach that complements underlying policy design and market structure

Use clearly-defined and simple mechanisms to limit costs
Thanks for attending!

Brendan Pierpont
Contact: brendan@cpisf.org