

**The Wind Coalition & Wind on the Wires
With Input from Solar Industry Representatives**

December 7, 2010

**Renewable Energy Standard Workshop, EW-2011-0031
Proposed Framework for Common Ground**

Our Common Objectives:

We recognize the Commission's three objectives, all of which need to be considered in reaching a compromise among the parties, while seeking a path forward to seeing Missouri implement a successful Renewable Energy Standard (RES). These objectives can be stated as follows:

1. Increase the development of renewable energy in Missouri.
2. Realize the economic development opportunities brought by renewable energy development in Missouri.
3. Protect rate payers from excessive rate impacts.

While we believe that the current Rules are workable and do achieve a balance of these objectives, we recognize that there are challenges to the interpretation and implementation of the existing Statute, and are seeking a path forward that achieves some consensus among stakeholders. In order to find common ground, while striking a balance among the objectives stated above, we make the following observations:

- To achieve a meaningful level of renewable energy development in Missouri, and meet the targets outlined in Prop C, rates will likely increase more than one percent from where they are today (which is not in any way in contrast with the Statute and Prop C language and intent).
- Economic development opportunities will not be realized unless a significant percentage of the RES is met with Missouri resources.
- When viewed over the expected life of a project, the rate impacts of renewable resources are lessened. Additionally, any evaluation of the cost impact of renewables should appropriately account for all costs and potential savings such as peak electricity cost suppression, future fuel volatility, environmental regulations, and other potential risk factors. A good IRP process seeks to evaluate sensitivities to such future scenarios and to strike a balance that minimizes costs to rate payers, while also mitigating against possible "unforeseen" cost increases.
- Impacts to rate payers can be further minimized if incremental renewable energy procurement is spread out evenly and rate caps are imposed, as was recognized in the Prop C design.
- If there is a way to implement a proposed solution without a change to the Statute, that is clearly preferred. However, our primary goal at this stage is to find consensus.

Our proposal seeks to find a balance between these sometimes opposing objectives, taking into account the concerns raised by the utility industry and other stakeholders in the previous Roundtable sessions.

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What We Heard:

We listened to the Commission, the utilities, the solar industry, and other stakeholders, and came away with the following observations:

- The current rate cap calculation is complicated and the utility industry would prefer a simpler model that would reduce the risk of regulatory uncertainty during implementation, and have proposed using the Revenue Requirement (RR) instead.
 - o We agree that a simplified model would be beneficial but believe that the RR model proposed by the utilities oversimplifies and does not adequately value the benefit of renewables in the utility's generation portfolio mix.
 - o We have also raised the concern that the utilities' proposal does not meet the three objectives, and so we recommend a slight revision to the utility RR methodology, while seeking to keep the simplified rate cap calculation.
- The utility industry would prefer using the IRP process to evaluate renewable resources against other least cost resources.
 - o We agree that the IRP process, if appropriately accounting for future fuel cost risks, regulatory risks, environmental risks, etc., can be a useful tool in the evaluation of renewable energy over a long-term forecasting and procurement period.
- The utility industry and industrial industry reiterated the importance of minimizing rate increases.
 - o We agree that this must be kept a priority. We also maintain that there are long-term risks to rate increases that can be mitigated by renewable energy resources, and that all new generation will likely increase rates, often much more than would be the case with renewable energy.
 - o We reiterate that some agreement must be reached for a reasonable increase to rates over time or we will all be at an impasse relative to our other common objectives.
- The utilities expressed concern over meeting the near-term solar targets, which has been a primary reason for proposing that the targets be met with renewable energy certificates (and not delivered energy), at least for the near term.
 - o If there is any risk of not meeting the minimal solar requirements, it will likely be just in 2011.
 - o The solar industry can respond quite quickly to new requests for solar resources, and would suggest an alternative means of providing flexibility to utilities in the near term rather than redefining RECs to exclude the sale and/or delivery of energy to Missouri customers.
- The wind and solar industries have maintained that the sale/delivery of renewable energy to Missouri customers is essential to create local economic development and encourage local construction of renewable generation.
 - o The wholesale market prices for renewable energy certificates, even in adjacent states, are so low that no new wind projects are likely to be built under such a definition. Similarly, allowing solar RECs to be sourced from anywhere in the

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United States will guarantee no local development since the cost of SRECs in other states is kept comparatively low due to incentive structures in other states.

- o When properly defined for RTO markets, the deliverability of energy is clearly a viable solution and will help us meet all three objectives, while providing for competitive sourcing of least cost renewable resources.
- The \$2/watt standard rebate is essential for the establishment of a significant commercial/residential solar industry, at least in the near term until the solar industry is able to bring economies of scale to MO and installed solar costs drop further. The rebate is not tied to the RES, and in the current Statute language, is not linked to the rate cap. However, in the Rules, the rebate has been incorporated into the rate cap. Because the rebate and the RES procurement will operate independently, it becomes logistically problematic to manage the rate cap for both programs.
 - o The small solar industry needs some certainty of rebate availability to grow and invest locally.
 - o The utilities and the remaining renewables industry need to calculate rate impacts on a go-forward basis to make least-cost planning decisions.
 - o Impacts to rate payers for both the RES and the rebate need to be managed to achieve the third objective above.

A Proposed Approach to Move Forward Together:

1. Use an IRP based 20-year NPV approach for calculating 1% rate cap:
 - o Calculate the rate impact provision using 1% of the NPV of the utility's projected revenue requirement (RR) over the 20-year IRP period that matches the 20-year PPA term of the renewable energy being procured (or 20-year expected life of utility-owned renewable generation).
 - For each RES procurement period that requires new renewable energy, each utility would calculate their projected 20-year RR using the IRP process. The IRP process would take into account anticipated plausible increases to the RR over time for new generation, projected fuel costs, environmental upgrades, environmental regulation compliance (including carbon emission restrictions), etc., and the cost required to provide for reasonable mitigation of such risks for rate payers.
 - If renewable generation is needed to comply with the RES during the IRP period, any needed capacity additions planned shall first be filled by renewable generation in sufficient quantity to meet the RES, and other generation which best matches this added renewable generation. To the extent renewable generation is considered part of the approved IRP resources, such generation would not be added as cost in the calculation of the rate impact provision.
 - The Commission would have discretion to include factors such as economic development in Missouri when evaluating new renewable generation projects being proposed within an IRP.

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- o The rate calculation would be compared to the NPV of the incremental cost of the renewable generation over the same 20-year period. The incremental cost would take into account savings from avoided energy, capital investment, and any other economic benefits resulting from the purchased renewable energy (e.g. emissions reductions from the avoided energy production, peak energy price suppression, and avoided transmission upgrades provided due to distributed generation). Only renewable energy that is not included as part of the base IRP will be counted against the rate cap. The Commission may set a value for the hedging value of renewable energy to be included as a benefit in the procurement of renewable energy.
- 2. Apply the rate cap to each procurement period:
 - o The rate impact would not exceed 1% for each procurement period, and each new procurement period would allow for a new 1% rate impact calculation, with all previous procurements now factored in as part of the next base IRP and new projected RR (as is done today with any new generation). To the extent any new procurements are projected to exceed the rate cap (and the Commission did not approve the generation as part of the IRP), the utility will procure up to the maximum possible to stay under the rate cap.
 - o To create a more even procurement process, while avoiding more costly annual procurements and rate cap increases, it may be necessary to consider more frequent procurement periods, such as every two years. This would strike an appropriate balance between protecting rate payers and promoting renewable energy development.
 - o The 2% solar carve-out applies as outlined in Prop C.
 - o Competitive RFPs should be issued for any new renewable procurements.
- 3. Fund the Solar Rebate Program separately since it is already separate from the RES:
 - o Separate the \$2/watt solar rebate program into a separately funded program, unrelated to the RES rate cap.
 - o This resolves the problems of complicated IRP planning and RES compliance rate impacts.
 - o Utilities would, of course, receive rate recovery for solar rebate funds.
- 4. Only allow RECs from systems that are delivering energy to Missouri ratepayers:
 - o RECs are defined as renewable energy that is sold and delivered to Missouri or to a Missouri utility's native load through its control area in a neighboring state (see second bullet below).
 - o The definition of delivered energy needs to be flexible to account for RTO market practicalities, but cannot be just certificates without energy delivered to MO customers.
 - For solar, this could possibly include a requirement that systems be connected to Missouri's distribution system.
 - o The definition would also allow renewable energy that is delivered to a Missouri utility's native load in a neighboring state to comply as a REC (e.g. Empire/KCPL can count as RECs any renewable energy delivering to their

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- eastern KS load, provided that those RECs are not also being used to meet Kansas RES targets).
- o The 25% benefit for RECs generated in Missouri remains as proposed in the current Rules.
 - o Renewable energy procured from other states will count based on the delivered megawatt hours (i.e. net of losses and curtailments), and their delivered costs would obviously need to factor in any additional tariff costs, congestion charges, etc. This allows for competitively sourced RECs from any region, but creates an economic incentive for Missouri projects.
5. If there are any near-term challenges to meet the RES goals, particularly with solar RECs in 2011, we propose providing flexibility in the procurement process rather than a redefinition of RECs.
- o Utilities will demonstrate reasonable efforts to procure renewable energy by issuing a competitive RFP(s) no later than Q2 2011, or other such efforts.
 - o As a result of such efforts the utility can demonstrate to the Commission that they were unable to meet the requirement due to a lack of supply of available RECs or if the COD of planned projects were too late, the utility will be able to defer the procurement until such RECs are available, without penalty, for up to one year.
 - For example: A utility issues an RFP in Jan 2011 for 10MW of solar RECs to meet a 2011 target. There were no solar projects delivering energy to MO in the market, but several projects could reach COD by Jan 2012. The utility can select one or more such projects, defer their 2011 solar REC compliance until the projects came online, and then produce the RECs in 2012 for both 2011 and 2012.