

RENEWABLE ENERGY PORTFOLIO STANDARD: MINIMUM OF 10% BY 2016; SOLAR ENERGY REBATES

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House Bill 4562

Sponsor: Rep. Frank Accavitti, Jr.

Committee: Energy and Technology

Complete to 6-21-07

A REVISED SUMMARY OF HOUSE BILLS 4562 AS INTRODUCED 3-29-07

BRIEF SUMMARY: The bill would create a new act to do the following:

- Require all electric service providers (regulated, municipal, cooperative, alternative, and independent investor-owned electric providers) to generate or acquire sufficient electric energy from renewable energy systems (or to purchase equivalent credits) so that a specified minimum percentage of the electricity it sold to retail customers in Michigan came from renewable sources. The required minimum percentage would be known as the portfolio standard.
- Allow renewable energy systems with electricity from the following renewable fuel sources to satisfy portfolio standards: **biomass (and the biomass portion of fuel mixtures), geothermal, solar, wind, hydroelectric (except for pump storage systems), and gas captured from waste decomposition.**
- Require each provider to establish an annual portfolio standard in accordance with the requirements of the bill (**a minimum of four percent beginning in 2008 rising to a minimum of 10 percent by 2016**).
- Require the Public Service Commission (PSC) to review all renewable energy contracts entered into after the effective date of the bill for compliance with the requirements of the bill.
- Allow regulated utilities to recover all their costs of complying with the requirements of the bill.
- Require the PSC to establish a system of renewable energy credits that a provider could use to meet its portfolio standard.
- Require the PSC to establish a credit certification and tracking program.
- Require a provider to enter into one or more long-term renewable energy contracts (for at least **20** years, unless a shorter term were agreed to by the supplier), if the provider could not comply with its portfolio standard through its own electricity generation or through purchased credits.
- Establish a one-time rebate for solar electric generation systems of \$2,000 per kilowatt hour of installed capacity, payable by the provider of the meter system to the owner of the solar electric generation system, subject to a statewide cap on the total amount of rebates.

- Require each provider to submit to the PSC an annual report on its actions taken to comply with its portfolio standard, and require the PSC to summarize the provider reports in an annual report to the Legislature.
- Require the PSC to impose a fine on a provider that did not comply with its portfolio standard in the amount of **\$50** per megawatt hour. For regulated providers, fines would not be a cost of service, and could not be included in rate increase applications or passed on to retail customers.

FISCAL IMPACT: The administrative responsibilities of the Michigan Public Service Commission would increase under this bill. The Department estimates that three to four additional full time staff will be needed to administer this bill's provisions. The added cost is estimated to be \$300,000 to \$350,000 including overhead. Fines for noncompliance would increase General Fund revenue.

BACKGROUND INFORMATION:

This bill (House Bill 4592) and Senate Bill 213 are identical as introduced.

More information about renewable portfolio standards in general, and current bills proposing renewable portfolio standards, can be found in a Legislative Brief (Vol. 4, Issue 10, April 2007) prepared by Jacqueline Langwith of the Legislative Service Bureau (LSB) Research Services Division, entitled "Renewable Portfolio Standards (RPS)." This document is available to legislators and staff online at:
http://lsbsource.legislature.mi.gov/online_research_reports/pdf/renewable_portfolio_standards.pdf.

DETAILED SUMMARY:

Annual portfolio standard. Each electric provider would be required to establish an annual renewable portfolio standard and report each year to the Public Service Commission on its status in meeting the standard. The standard would have to require the provider to generate or acquire electricity from renewable energy systems, or to acquire equivalent renewable energy credits (described below) in the following amounts:

<u>Calendar year(s)</u>	<u>% of total amount of kilowatt hours sold to retail customers during calendar year</u>
2008	At least 4%
2009-2010	At least 5%
2011-2012	At least 6%
2013-2015	At least 7%
2016 and later	At least 10%

PSC review of renewable energy contracts. The PSC would review renewable energy contracts entered into after the effective date of the act for compliance with the following requirements:

- The term of the contract is at least 20 years (unless the renewable energy supplier agreed to shorter contract).
- The terms and conditions of the contract, including price, are just and reasonable.
- The terms and conditions of the contract will provide a long-term purchase price from a creditworthy party to allow financing, construction, and operation of the renewable energy system.

Cost recovery by regulated electric utilities. The PSC would consider all costs "reasonably and prudently incurred by a regulated utility in meeting the requirements of the act" to be a cost of service. The PSC would determine a cost-recovery mechanism for these costs.

Renewable energy credits. The PSC would be required to establish a system of renewable energy credits that a provider could use to comply with its portfolio standard. The renewable energy credit system would have to meet all of the following criteria:

- Only renewable energy systems located in Michigan would be eligible for credits.
- A process would be required to certify all existing and new renewable energy systems operating on the effective date of the bill as eligible for credits.
- A method would be required for the transferability of credits.
- For power purchase agreements existing on the effective date of the bill, the generator of the renewable energy would own any renewable energy credits unless the contract provided otherwise.

Credit certification and tracking program. The PSC would also have to establish a credit certification and tracking program. This program could be contracted to and performed by a third party, after competitive bidding. The certification and tracking program would have to do all of the following:

- Certify whether a renewable energy system is a "qualified renewable energy system."
- Certify whether the operator of a renewable energy system is in compliance with applicable state and federal laws as of certification.
- Affix the date that a renewable energy credit is valid for transfer.
- Establish an accounting method for the trading and sale of renewable energy credits.

Compliance with portfolio standard. If a provider were unable to comply with its portfolio standard through the generation of renewable energy credits derived from its own renewable energy system or by purchasing certified renewable energy credits, the provider would be required to comply by entering into one or more renewable energy contracts.

Expiration of renewable energy credits. Renewable energy credits used by a provider to comply with its portfolio standard would be extinguished upon use. Credits would automatically expire three years after their original certification.

Solar electric generation system rebates. Solar electric generation systems installed in Michigan would be eligible for a rebate of \$2,000 per kilowatt hour of installed capacity, as defined in the bill. All solar panels used would have to be certified by the Solar Rating and Certification Corporation.¹ The provider of the meter service would make a one-time payment to the owner of the solar electric generation system after the system is installed and has demonstrated its ability to produce electricity.

The rebate program would be subject to a statewide cap:

<u>Year</u>	<u>Solar Capacity</u>
2008	5,000 kW
2010	10,000 kW
2012	15,000 kW
2014	20,000 kW
2015	25,000 kW

The PSC would be required to allow a provider to recover the costs of these solar rebates from ratepayers, on the same basis as other capital investments used to serve its customers, using a 20-year amortization period. A provider that makes a rebate payment would own all of the renewable energy credits associated with power generated from the solar facility.

Annual reports. Each electric provider would have to submit to the PSC an annual report in an approved format setting forth the actions the provider took to comply with its portfolio standard. The annual report would be due after the end of each calendar year by a deadline set by the PSC. Each report would have to include all of the following information:

- The amount of electricity and renewable energy credits that the provider generated or acquired from renewable energy systems during the reporting period and the amount of renewable energy credits that the provider acquired, sold, or traded during the reporting period to comply with its portfolio standard.
- The capacity of each renewable energy system owned, operated, or controlled by the provider; the total amount of electricity generated by each system during the reporting period; and the percentage of that total amount generated directly from renewable energy.
- Whether, during the reporting period, the provider began construction on, acquired, or placed into operation any renewable energy system.
- Any other information that the PSC determined necessary.

The PSC would have to file an annual report with the Legislature summarizing the data collected from the providers' reports.

Penalties. If a provider did not comply with its portfolio standard, the PSC would have to impose a fine of \$50 per megawatt hour for each renewable energy credit that the

¹ Information about the Solar Rating and Certification Corporation (SRCC) can be found at <http://www.solar-rating.org>.

provider did not generate or acquire from a renewable energy system during a calendar year in violation of its portfolio standard. The fine amount would be adjusted annually for inflation. Fines imposed by the PSC against a regulated rate provider (1) would not be considered a "cost of service" of the provider; (2) could not be included in any application for a rate adjustment or increase, and (3) could not be recovered from its retail customers.

Definitions. Terms defined in the bill include:

"Biomass" would mean "any organic matter that can be converted to usable fuel for the production of energy and is available on a renewable basis" including (1) agricultural crops and crop wastes, (2) wood and wood wastes, (3) animal wastes, (4) municipal wastewater sludge, (5) aquatic plants, (6) food production and processing waste, and (7) municipal solid waste.

"Installed capacity" would mean the total amount of electricity a renewable energy system could generate in one hour at full load.

"Portfolio standard" would mean the required minimum percentage of a provider's total annual retail kilowatt hour electricity sales in Michigan composed of electricity produced from a renewable energy fuel source.

"Provider" would mean "any person that is in the business of selling electricity to retail customers in this state" including regulated electric providers, municipal electric providers, cooperative electric providers, alternative energy suppliers, and independent investor-owned electric utilities.

"Renewable energy contract" would mean a contract to acquire electricity and associated renewable energy credits from one or more renewable energy systems.

"Renewable energy credit" would mean a certified credit equal to one megawatt hour of generated renewable energy.

"Renewable energy fuel" would mean any of the following: biomass, geothermal, solar, wind, hydroelectric (except for pump storage systems), gas captured from the decomposition of waste, or that portion of a fuel mixture that is a biomass fuel.

"Renewable energy system" would mean "a facility, an electricity generation system, or an integrated set of electricity generation systems that use renewable energy fuel."

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.