Northwest Power and Conservation Council

January 26, 2011

MEMORANDUM

TO: Power Committee

FROM: Sandra Hirotsu

SUBJECT: Update on CA Renewable Energy Policy

The California Public Utilities Commission (CPUC) issued a decision effective January 13, 2011 authorizing the limited use of renewable energy credits (RECs) for compliance with the California Renewables Portfolio Standard (RPS)[1] and lifting the existing stay and moratorium on tradable renewable energy credit (TREC) trading.[2] The decision sets forth rules for the use of TRECs to meet RPS obligations and commits the CPUC to monitoring the developing TREC market and taking actions necessary "to refine and further develop the place of TRECs in RPS compliance."

Technically, this latest decision reinstates the CPUC's March 11, 2010 decision with some modifications and clarifications. As you may recall, the CPUC stayed the March 2010 decision after petitions for modification of that decision were filed by California's three major investor owned utilities (IOUs) and the Independent Energy Producers Association. The CPUC's January 13, 2011 decision effectively denies both petitions for modification and lifts the stay and moratorium on approval of TREC contracts.

The January 13, 2011 decision:

- Authorizes California's three largest IOUs to use RECs to meet up to 25 percent of their RPS obligation annually, beginning with the 2010 compliance year. The 25 percent usage limit is temporary and will expire December 31, 2013.

- Retains the same definition of "bundled" and REC-only (TREC) transactions as set forth in the March 2010 decision. "Bundled" transactions are those where RECS and RPS-

[1] The CA RPS requires IOUs regulated by the CPUC to procure 20 percent of their annual retail sales from renewable facilities certified as RPS-eligible ("qualifying facilities").
[2] The decision is available online at 1/14/2011http://docs.cpuc.ca.gov/WORD_PDF/FINAL_DECISION/129517.pdf.

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eligible energy are procured from a generator whose first point of interconnection with the WECC is a CA balancing authority; or where the renewable energy is dynamically transferred to a CA balancing authority area. In contrast, REC-only (TREC) transactions are those that (1) transfer only RECs and not energy; *or* (2) transfer both RECs and energy but do not meet the CPUC's criteria for "bundled" transactions for purposes of compliance with the CA RPS. The significance of the CPUC characterizing a transaction as "bundled" or REC-only is that the CPUC places no limits on the number of "bundled" transactions that IOUs can use to meet their annual RPS obligations; but does limit the number of "unbundled" or REC-only transactions that IOUs can use to fulfill their RPS obligations.

- Treats all deliveries prior to January 13, 2011 that resulted from transactions approved by the CPUC before January 13, 2011, in which RECs and RPS-eligible energy are procured from a generator whose first point of interconnection with the WECC is *not* a CA balancing authority, and which does not make use of dynamic transfer arrangements with a CA balancing authority as "bundled" transactions. The same transactions occurring *after* January 13, 2011, would be characterized as REC-only pursuant to this decision.

- Exempts deliveries made pursuant to contracts which under this decision would be classified as REC-only, from the 25 percent usage limit if the contract was approved by the CPUC before January 13, 2011 and *if* such deliveries would cause the IOU to exceed the 25 percent annual limit on TRECs.

- Places a $50/REC price cap on RECs that IOUs can use for RPS compliance. The price cap is temporary and will expire on December 31, 2013.

- Clarifies the CA Electricity Commission's (CEC's) jurisdiction with respect to RECs. The decision states that "In order to be used for compliance with the California renewables portfolio standard, tradable renewable energy credits must be tracked and retired in the Western Renewable Energy Generation Information System…and must meet the criteria for eligibility for the California renewables portfolio standard that are set by the California Energy Commission."
    - For RPS eligibility, the CEC continues to require within-year delivery of the same amount of electricity as was generated for the REC.

Update on CA RPS/REC Policy

Power Committee
February 8, 2011

- Authorizes IOUs to use RECs to meet up to 25 percent of their RPS obligation

- Places a $50/REC price cap on RECs used for RPS compliance

- Both usage and price caps expire 12/31/2013

CPUC decision 1/13/2011

- All deliveries made before 1/13/2011 will be considered "bundled" deliveries of both renewable energy credits and energy for purposes of compliance with the CA RPS and won't be subject to restriction

- if CPUC approved contract <u>before 1/13/2011,</u> deliveries made *after* 1/13/2011 that would be considered REC-only under this decision, are exempt from the 25 percent limit *if* counting those deliveries would cause the IOU to exceed the 25 percent limit

CPUC decision 1/13/2011

- Continues CEC’s within-year delivery requirement of the same amount of electricity as was generated for the REC

CPUC decision 1/13/2011

- Gather information to determine whether to classify RPS procurement transactions that include firm transmission arrangements as bundled or REC-only

- Continue collaboration with CEC and CARB to maximize benefit of renewable energy programs for CA residents

CPUC: Next Steps

- ARB supposed to initiate a rulemaking no later than 30 days after the CPUC issues its decisions on RECs to ensure continued harmonization of the RES and the RPS
  - Purpose of initiating rulemaking is to specifically incorporate RPS provisions related to TRECs in the RES

- Ongoing legal challenge to AB 32 (Global Warming Solutions Act of 2006) *could* impact implementation of Renewable Electricity Standard
  - January 24, 2011. *Association of Irritated Residents vs. CA Air Resources Board* - CA Superior Court issued Tentative Statement of Decision
  - lots of caveats

CA Air Resources Board

- Introduced in December 2010
- Increases RPS to 33% by end of 2020
  - 20% by end of 2013
  - 25% by end of 2016
  - 33% by end of 2020
- Would apply RPS to publicly owned utilities
- Proposes limiting use of TRECS to:
  - No more than 25 percent by end of 2013
  - No more than 15 percent by end of 2016
  - No more than 10 percent thereafter

CA Senate Bill 23 – current draft