Procurement of Renewable Energy, Regional and otherwise . . .

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Procurement: key tool as fuel price volatility destabilizes markets

Natural Gas (and wholesale electric) prices are less than half of March 2003

Lingering oil & coal plants crushing “capacity” prices

Energy market turmoil & general credit instability: Practically no “merchant” generation getting built

Oil ~370% higher than 2003

Coal ~200% higher than 2004

Gas, Oil & Electric price data compiled by ISO-NE. Coal from NYMEX.
• Solar: SRECs and similar mechanisms getting projects built across the region but biggest projects from utility procurements approved by MA DPU. CT LREC/ZREC is similar path.

• Wind: Section 83 of MA Green Communities Act procurements (both competitive & direct negotiation) has been spark to development of both onshore and offshore projects.

• Bottom line: Without certainty of contract that comes from procurement or “contract-like” tool like a net-metering or feed-in tariff with queuing and certainty very little can get built these days.

**Procurement can take many forms of course, for example:**

- Central Procurement through public entity (ex. NY RPS compliance mechanism)
- Restructured Utility procurement w/DPU supervision (ex. MA Sec. 83; “Standard Offer”)
- Procurement by integrated utility w/commission approval (ex. VT, PSNH in NH sort of)
- Commission as “sleeve” w/utility purchase (ex. Maine Standard Offer)
- Different states have different tools
  - VT only state with full commission power to order utility procurement
  - Melange of statutory authority in the other New England states

Cost can be mitigated by buying for larger number of customers, spreading the cost on larger base – fundamental argument for regional procurement
The economic case for clean energy procurement: think it over DOUG.

Zero fuel price resources are the ultimate price hedge. Key way to mitigate risk, especially in a competitive environment.

Just as cheapest MW of generation is one you don’t build (efficiency is 1st fuel), cheapest fuel is one provided by nature for free (wind/sun is 2nd fuel).

The most cost and price stable generation long term contracts are for wind and solar – pretty much all capital. No fuel adjustments.

Procurement that moves the transition to new technologies and gets new projects built counterbalances systemic bias towards incumbents ("PIGs rules")
Additional Context: Order 1000 and Capacity Market redesign

• FERC directive that transmission planning consider “Public Policy” pushes towards clearer vision of exactly what renewables will be built to meet RPS/RES mandates so transmission can serve it – you can’t build to serve the need unless the need is very clearly articulated

• General redesign of forward looking markets creates desire to get house in order but creates tension – states and supportive stakeholders need to make sure that mechanisms like “Minimum Offer Price Rule” and efforts to compensate for “Out of Market revenue” do not undermine good procurement policy
Unique geographic challenge of New England, challenges and opportunities


NESCOE 2011 RFI: over 1,000 MW of offshore wind in development. ISO-NE analysis: over 4,500 MW of developable offshore wind potential. Capital

“Load” states with good climate & renewables policy can be hinge for regional development.
States are at least thinking about how to procure regionally

WHEREAS the New England Governors continue to be interested in exploring the potential for joint or separate but coordinated competitive procurement of renewable resources as a means to identify those able to serve customers at the lowest over-all delivered cost.

NOW, THEREFORE, BE IT RESOLVED that the New England Governors direct NESCOE and their regulatory and policy officials to continue to investigate the potential for the joint or separate but coordinated competitive procurement of renewable resources that satisfy the New England states’ Renewable Portfolio Standards or goals; and

BE IT FURTHER RESOLVED that the New England Governors request that NESCOE and their regulatory and policy officials schedule meetings during the third quarter of 2011 to provide detailed briefings to each of the Governors or their staffs on issues related to the potential for joint or separate but coordinated renewable resource procurement; and

BE IT FURTHER RESOLVED that the New England Governors direct NESCOE and their regulatory and policy officials to report on the progress of such investigations at or before the next meeting of the New England Governors’ Conference.


Deval L. Patrick
Governor of Massachusetts
Chairman
One Idea: National Grid proposal for “Forward Renewable Capacity Market” from Fall 2011 or something like it . . .

**Will There Be Renewables To Plan For?**

- A Forward Renewable Capacity Market (“FRCM”) could be an efficient solution to achieving state public policy goals and identifying the associated transmission needs
  - Establish an FRCM as a compatible enhancement to the existing Forward Capacity Market (“FCM”)
    - Like the FCM, commitments could be made through a competitive auction-based central procurement administered by ISO-New England (perhaps for 15-year commitments rather than the maximum of 5 years under the FCM)
    - Like the FCM, monthly payments from ISO-NE to the renewable resources, and the collection of associated charges from the applicable load servers, could be governed by and assured under a FERC-approved tariff
  - The states could be responsible for agreeing on and establishing the FRCM auction total requirements and any clearing conditions
    - a minimum of X MW of on-shore wind must clear in Northern New England states?
    - a minimum of Y MW of off-shore wind must clear off coast of Southern New England states?
    - only resources priced below some reflection of ACPs will clear the auction?
  - Results of the FRCM auction could establish transmission needs driven by public policy requirements

Key is ISO-NE role as “market operator”
The Other Idea on the Street: The Big Sleeve

- States would put out RFP(s) or similar document that would describe what resources the States are seeking to procure
  - Ex. 2,000 MW of resources eligible for MA RPS Tier I for 20 years

- Developers or Aggregators would respond (different pieces could have different responses from same or different respondents)
  - Responses could go to “central mailbox” or to individual states

- Coordinated timing and announcement could help developers by providing a clear target date when large quantities of RE would be purchased

- Pro: Would require relatively little new law or regulation
- Con: Would potentially be not big enough a change

Hybrid possibility: “Sleeve” as gateway to centralized Regional Procurement

New England Govs. Meeting this summer could yield further progress . . .