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Background LSA position paper on treatment of behind-the-meter distributed resources under the RPS

Attached please find the Large-scale Solar Association's position paper on the treatment of behind-the-meter distributed resources within the State's RPS and climate policies. This paper is submitted as background to the post-workshop comments that were also filed this afternoon.

Additional submitted attachment is included below.

Large-scale Solar Association Position Paper

Treatment of Behind-the-Meter Renewable Energy Credits in California's RPS and Climate Policies

This paper outlines the position of the Large-scale Solar Association (LSA) regarding the treatment of unbundled behind-the-meter (BTM) Renewable Energy Credits (RECs) in the existing 33% Renewables Portfolio Standard (RPS) and future renewable energy procurement policies.

- ❖ **LSA does not support any change to the treatment of BTM RECs within the existing 33% RPS or any future RPS framework.**
- ❖ **LSA believes that any extension of the RPS or creation of a new renewable procurement obligation for California should continue to recognize and prioritize the unique value of wholesale renewable resources.**

Background

The markets for retail BTM and wholesale renewables are unique, and therefore respond to different policy drivers. An attempt to shoehorn one resource, BTM RECs—which are currently generated under a set of targeted retail policies—into a fundamentally different wholesale market, could unintentionally impose a limit to or slow the growth of both resources, as well as the economic and environmental benefits they produce.

The current 33% RPS is a wholesale electricity procurement requirement based on utility retail sales, with the goal of increasing renewable energy in the generation mix of the State's utilities. Under the existing framework, in-state, wholesale, bundled (energy plus RECs) renewable energy is considered a 'bucket 1' resource, and is prioritized in RPS procurement. BTM RECs fall into 'bucket 3', which is designated for unbundled RECs and is purposefully limited under the RPS. BTM resources already confer value by reducing the utilities' RPS obligation by lowering retail sales.¹

Issues with including additional BTM RECs in the existing 33% RPS

Redefinition of BTM RECs as 'bucket 1' runs the risk of flooding the market, undermining the integrity of California's greenhouse gas (GHG) accounting system, creating the need for a vast new RPS accounting system at the CPUC, and skewing the forecasts of future GHG emission reductions resulting from energy efficiency and renewable energy measures. LSA believes that including BTM RECs as 'bucket 1' resources under the 33% RPS may lead to the following unintended and undesirable consequences:

- 1. Potential for double or triple counting.** Allowing BTM resources to both reduce load *and* receive 'bucket 1' RPS supply credit essentially would allow them to be counted in both the numerator and denominator of the RPS calculation.
- 2. Commerce clause challenges.** Due to interstate commerce laws, allowing BTM RECs to count toward 'bucket 1' of the existing RPS structure could require opening 'bucket 1' to unbundled RECs – and perhaps BTM RECs – from other states throughout the West.

¹ In November of 2011, the CPUC in Decision 11-12-052 determined that: "...AB 920 specifically recognizes that the sale of RECs associated with the on-site use of electricity from an RPS-certified DG facility is different from the sale by the system owner of both energy and RECs to a retail seller. In considering the role of such unbundled RECs, it is also important to recognize that the on-site consumption of the electricity from the DG system has already produced an RPS benefit: it reduces the total retail sales of the interconnected utility, and thus reduces the amount of RPS-eligible procurement the utility requires. (See D.05-05-011 at 9.)

3. **Reduced market for wholesale renewables.** This change would artificially shrink the market for a low-cost, diverse, and planned portfolio of renewable energy that is best suited to meet energy and reliability needs.
4. **Forecasting and reliability challenges.** Wholesale renewable resources are more visible to the CAISO and conform to statewide transmission and reliability plans. These resources participate in CAISO energy markets and can be balanced with other resources statewide. Forecasting of retail BTM resources, on the other hand, is not currently feasible.
5. **Uncertain planning horizon for GHG reductions.** Due to the voluntary nature of BTM installations, LSA cautions against an over-reliance on future BTM resources to achieve critical interim and long-term GHG emission reductions.
6. **Halt in development.** Allowing BTM RECs in 'bucket 1' could artificially inflate the state's RPS procurement to 39% by 2020². The current RPS allows utilities to halt renewable procurement at 33%.
7. **Weakened mandates:** Loosening the 'bucket 1' requirements to include unbundled RECs creates a slippery slope that favors "flexible compliance" over real progress.

Issues with including BTM RECs in the 50% Renewable Energy policy

Given the state's commendable progress toward achieving the existing 33% RPS goal, the gap between 33% and 50% is quickly narrowing. This leaves a relatively small slice for the wholesale technologies that bring multiple benefits to the State's electric system, including:

- Low-priced clean power to serve the State's ratepayers.
- In-state, verifiable, properly accounted-for emission reductions.
- Utility and CAISO management of resources for improved planning and integration.
- Provision of ancillary services.
- Significant new jobs and economic benefits that accrue to the state from wholesale projects, often occurring in the counties most in need of economic development.

Policy recommendations

The following policy options may afford greater recognition of the role of BTM RECs, while preserving the important role that wholesale renewable resources play in meeting the State's energy and climate goals.

1. Extend the current 'bucket' structure of the 33% RPS out to a 50% RPS, while continuing to promote BTM resources through existing or strengthened policies and mechanisms (e.g. net energy metering, rate design, and streamlined interconnection procedures). Language adopted in AB 327 (Perea, 2013) was designed to ensure that the market for BTM resources continues to grow sustainably.³
2. Incorporate BTM resources into the Energy Commission's implementation of a program to achieve greater energy savings in California's existing residential and nonresidential building stock. These resources already serve load, and are treated as such under both the cap-and-trade program and the 33% RPS.

² The IOUs have signed contracts to procure renewable energy at 31.3% (PG&E), 23.5% (SCE), and 38.8% (SDG&E) of their portfolios by 2020. During certain hours, renewable energy provides about 40% of the State's energy.

³ Section 2827.1 of the Public Utilities Code requires the Public Utilities Commission to "Ensure that the standard contract or tariff made available to eligible customer-generators ensures that customer-sited renewable distributed generation continues to grow sustainably and include specific alternatives designed for growth among residential customers in disadvantaged communities."