Legislative Analysis

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RENEWABLE ENERGY PORTFOLIO STANDARD: MINIMIMUM OF 20% BY 2020

House Bill 4539
Sponsor: Rep. Robert Jones
Committee: Energy and Technology

Complete to 6-21-07

A REVISED SUMMARY OF HOUSE BILL 4539 AS INTRODUCED 3-28-07

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

- Require the Public Service Commission (PSC or Commission) to establish a portfolio standard for renewable energy for each provider of electric service to retail customers in Michigan. A portfolio standard would be the minimum percentage of the total amount of electricity generated or acquired from renewable energy systems sold by a provider to its retail customers in Michigan during the calendar year.
- To qualify as a "renewable energy system," a facility or energy system would have to (1) both generate renewable energy (defined in the bill as **biomass, geothermal, solar, or wind**) and transmit or distribute it, or (2) reduce energy consumption by means of a solar thermal energy system.
- **The required energy portfolio standard would start as a minimum of seven percent by the year ending December 31, 2009 and rise to a minimum of 20 percent by the year ending December 31, 2020. Of this amount, at least five percent of the required percentage of renewable energy would have to come from solar energy (starting at a minimum of .0035% by the year ending December 31, 2009 and rising to a minimum of .010% by the year ending December 31, 2020).**
- Allow the PSC to establish a system of renewable energy credits that a provider could use to meets its portfolio standard.
- Require a provider to enter into one or more long-term renewable energy contracts (for at least **10** years, unless a supplier agreed to a shorter contract) if a provider could not comply with its portfolio standard through its own electricity generation or through credits (unless a renewable energy contract was not available with just and reasonable terms, as determined by the PSC).
- Require the use of the best available emission control technologies in connection with biomass combustion used to meet a portfolio standard, and establish a preference for gasified biomass technologies.
- Require each provider to submit to the PSC an annual report on its actions taken to comply with its portfolio standard.
- Require the PSC to fine a provider **$55 per megawatt hour** if it failed to meet its portfolio standard in the calendar year with fines to be deposited in a "Public

Benefits Fund" which the PSC could spend, upon appropriation to promote renewable energy generation in Michigan.

[Note: This bill (House Bill 4539) and Senate Bill 385 are identical as introduced.]

FISCAL IMPACT: The bill will increase the administrative responsibilities of the Michigan Public Service Commission. The Department estimates that three to four additional full time staff will be required to administer this bill's provisions. The added cost would be $300,000 to $350,000 including overhead. Any fines levied under this bill would be deposited in the Public Benefits Fund created by this bill. The Public Benefits Fund revenue would be used to promote renewable energy generation, and would not lapse to the General Fund.

BACKGROUND INFORMATION: 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:

Portfolio standard. The PSC would establish a portfolio standard for renewable energy for all providers selling electricity to retail customers in Michigan. The standard would require the provider to generate or acquire electricity from renewable energy systems in the following amounts:

By calendar year ending	% of total amount of electricity sold to retail customers during calendar year
12-31-2009	At least 7%
12-31-2012	At least 9%
12-31-2015	At least 13%
12-31-2018	At least 16%
12-31-2020	At least 20%

Renewable energy definitions. To qualify as a "**renewable energy system**," a facility or energy system would have to (1) both generate renewable energy and transmit or distribute it, or (2) reduce energy consumption through a solar thermal energy system.

Biomass, geothermal, solar, and wind would qualify as sources of "**renewable energy**."

"Biomass" would mean "cellulosic organic material from a plant that is planted to produce energy" or nonhazardous plant matter waste material segregated from other waste materials derived from (1) an agricultural crop, crop by-product, or residue resource; (2) waste such as landscape or right-of-way trimmings (excluding municipal solid waste; recyclable postconsumer waste paper; painted, treated, or pressurized wood;

construction debris; and wood contaminated with plastic or metal); (3) gasified animal wastes; or (4) landfill methane.

Specific requirement for solar energy. At least five percent of the provider's renewable portfolio standard would be required to come from solar renewable energy systems. So, for example, in 2009, five percent of the required minimum of seven percent of renewable energy would have to come from solar energy.

[Note: Converted to a percentage of total amount of electricity sold to retail customers, the five percent solar standard would require providers to generate or acquire electricity from solar energy systems in the following amounts:

Calendar year(s) Ending	% of total amount of electricity sold to retail customers during calendar year
12-31-2009	At least .0035%
12-31-2012	At least .0045%
12-31-2015	At least .0065%
12-31-2018	At least .008%
12-31-2020	At least .010%]

Reduction in consumption. If a provider has subsidized (in whole or part) the acquisition or installation of a solar thermal energy system for the benefit of one or more of its customers, and the solar energy system both qualifies as a renewable energy system and reduces the consumption of electricity, the total annual reduction in electricity consumption would count each year toward the portfolio standard.

Renewable energy credits. The Commission could establish a system of renewable energy credits that a provider could use to comply with its portfolio standard.

Renewable energy contracts; exemptions. A renewable energy contract would be required to have a term of 10 or more years, unless the other party agreed to a shorter contract. Contract terms, including price, would be subject to a "just and reasonable" standard, as determined by the Commission.

If a provider were unable to comply with its portfolio standard through energy it generated itself or renewable energy credits, the provider would have to acquire electricity under one or more renewable energy contracts. If the Commission determined that "there is not or will not be a sufficient supply of electricity made available to a provider under renewable energy contracts with just and reasonable terms and conditions," the Commission would be required to exempt the provider from all or a portion of its portfolio standard requirements for that calendar year.

Biomass combustion required to use best available control technology. Any biomass combustion used to meet the provider's portfolio standard would have to use the best available emission control technologies. A preference would be established for gasified biomass technologies.

Annual reports. Each electric service 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 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.

Penalties. If a provider did not comply with its portfolio standard for a calendar year, the PSC would be required to impose a fine of $55 per megawatt-hour of renewable energy by which the provider failed to meet its standard. The fine amount would be adjusted annually for inflation.

A fine, or any portion of a fine, imposed against a regulated rate provider: (1) would not be considered a "cost of service" of the provider; (2) could not be included in whole or part in any application for a rate adjustment or increase; and (3) could not be recovered from retail customers.

Public Benefits Fund. Fines imposed on providers under the bill would be deposited into a "Public Benefits Fund" to be created in the state treasury. Money in the fund at the close of the fiscal year would remain in the fund and not lapse to the General Fund. The Commission would expend money from the Fund, upon appropriation, to promote renewable energy generation in Michigan.

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