

Work Session #2: Introduction of New RPS Classes

Minutes

April 21, 2011, 2:00 PM

Call-in Phone Number: 1-866-951-1151, **Conference Room number:** 5518132

Correction to Workshop #1 Minutes: There was not near unanimous consensus that the RPS requirements for all classes must be extended beyond 2025, rather several workshops participants voiced support of an extension.

Kate Epsen (PUC staff) opened the discussion by reading aloud the purpose of RSA 362-F, New Hampshire's RPS law. The purpose of the RPS law is to:

- Promote resources that serve to displace and thereby lower regional dependence on fossil fuels;
- Stabilize future energy costs by reducing exposure to rising and volatile fuel prices;
- Support New Hampshire's economy;
- Improve air quality and public health; and
- Mitigate against the risks of climate change.

I. **Potential for addition of a thermal energy component**

Representatives of the distribution utilities cautioned against cross-subsidization; that is, we should not burden electricity rate-payers with the cost of a thermal energy portfolio requirement. Let the liquid or gas fuel ratepayers pay for a thermal energy requirement through their rates. Other attendees mentioned that Massachusetts' alternative energy portfolio standard program is a separate class from the RPS but is billed to all Massachusetts' electricity ratepayers (the requirement is based on the load serving entities' electric load).

Members of the biomass community reminded the group that the purpose of a thermal RPS requirement is to create an incentive to capture waste heat. Another idea is to apply a small charge to the purchase price of unregulated fossil fuel commodities, such as a System Benefits Charge (SBC) type of charge, tax or fee.

The key to determining the potential for a thermal component is to first define thermal. Several individuals recommended that a thermal class be limited to combined heat and power (CHP) applications. No one spoke in favor of adding a pure thermal component to the RPS.

The group discussed whether CHP should be restricted to renewable fuels as in the current definition of eligible biomass technologies under the RPS. If other (non-renewable) fuels were also eligible, the market potential would be huge and would likely flood the market for CHP RECs. Restricting eligible sources to those that rely on renewable energy is justified by the purpose of the RPS law, which states that a goal is to incentivize "resources that serve to displace and thereby lower regional dependence on fossil fuels." It was recommended that the state should also place emission standards on CHP sources, as is the case in other states.

At least one attendee reminded the group about the binary nature of REC prices, in that a large project could drive REC prices from near ACP levels to near zero.

Many attendees expressed concern that out-of-state sources could flood the market for CHP RECs. However, the State must tread cautiously regarding the Interstate Commerce Clause (Massachusetts/TransCanada settlement and new Colorado case). Members disagreed on whether setting multipliers to favor New Hampshire sources would violate the Interstate Commerce Clause.

Some attendees stressed the preference for a performance based incentive rather than a rebate for CHP systems because such a measure encourages optimal system design. An example is the success of the federal performance tax credit. A performance based incentive would also attract private investment, depending on the liquidity of the market and the ease in which a jurisdiction allows long-term contracts.

II. Potential addition of an energy efficiency class

Many attendees voiced disapproval for adding an energy efficiency (EE) class to the RPS law because utilities should not double charge customers to support EE measures given that New Hampshire already has a system benefits charge (SBC) that supports the “Core” electric utility EE programs. Moreover, the ISO-NE’s demand response programs further incentivize energy saving behaviors. It was suggested that if New Hampshire wants to increase the use of EE, the State could simply increase the SBC, which has not been increased since its inception nearly a decade ago. If NH were to have an energy efficiency class, the minimum requirement could be set to 2.4 percent of load, such as in the case of Massachusetts. In that case, NH may need to establish a cost effectiveness test, like the Total Resource Cost test or the Societal Cost Test.

An alternative to an EE class could be a least cost procurement approach, like the MA Green Community Act contracts, whereby utilities would invest in all cost effective EE measures (EE measures average to about \$0.03 per avoided kWh).

III. The consolidation of existing classes or addition of other classes

Several participants suggested New Hampshire’s RPS is complex enough with four separate classes and resulting markets. Some proposed combining all the classes into one class and then applying different multipliers to various types of RECs. Others expressed the need to separate new sources from existing sources because many existing sources rely on REC revenues to remain in operation. It was also pointed out that we need to remain aware of the interplay of NH markets with other states’ markets. One potential solution would be to apply multipliers to REC by location and time-of-use (however, energy and capacity markets already incent load shedding behaviors). There was strong support to design a simple REC market structure that encourages long-term contracts.