Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

RENEWABLE ENERGY PORTFOLIO STANDARD: MINIMUM OF 7% BY 2015

House Bill 4319
Sponsor: Rep. Howard Walker
Committee: Energy and Technology

Complete to 6-21-07

A REVISED SUMMARY OF HOUSE BILL 4319 AS INTRODUCED 2-27-07

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 four percent in calendar years 2006-2008 and rise to a minimum of 7 percent in calendar years 2015 and later. Of this amount, at least one percent of the required renewable energy would have to come from solar energy (starting at a minimum of .0004% in calendar years 2006-2008 and rising to a minimum of .0007% in calendar years 2015 and later).**
- Allow regulated utilities to recover their costs of providing renewable energy.
- 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 **20** years or more, unless the other party agreed to a shorter term), if the provider could not comply with its portfolio standard through its own electricity generation or through credits, unless such credits were not available with just and reasonable terms, as determined by the PSC.
- Require each provider to submit to the PSC an annual report on its actions taken to comply with its portfolio standard.
- Allow the PSC to impose a **reasonable fine** on a provider that did not comply with its portfolio standard. For regulated providers, fines would not be a cost of service, could not be included in rate increase applications, and could not be passed along to retail customers.

[Notes: This bill (House Bill 4319) and Senate Bill 219 are identical as introduced.]

Tie-bar. House Bill 4319 is tie-barred to House Bill 4254, meaning that unless both bills are enacted, neither will take effect. (House Bill 4254 would make certain wind energy systems eligible for special or conditional land use permits in any zoning classification.)

FISCAL IMPACT: The bill would increase the administrative responsibility of the Michigan Public Service Commission. The Department estimates that three to four additional staff will be required to administer this bill's provisions. The added cost is estimated to be $300,000 to $350,000 including overhead. Any fines for noncompliance would increase General Fund revenue.

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:

Calendar year(s)	% of total amount of electricity sold to retail customers during calendar year
2006-2008	At least 4%
2009-2011	At least 5%
2012-2014	At least 6%
2015 and later	At least 7%

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 "any organic matter that is available on a renewable basis" including (1) agricultural crops and agricultural crop wastes and residues, (2) wood and wood wastes and residues, (3) animal wastes, (4) municipal wastes, and (5) aquatic plants.

Specific requirement for solar energy. At least one percent of the amount of energy a provider would have to generate or acquire from renewable energy systems would have to come from solar renewable energy systems. So, for example, in 2008, one percent of the required minimum of four percent of renewable energy would have to come from solar.

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

Calendar year(s)	% of total amount of electricity sold to retail customers during calendar year
2006-2008	At least .0004%
2009-2011	At least .0005%
2012-2014	At least .0006%
2015 and later	At least .0007%]

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. 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. (A renewable energy contract would be long-term contract with a term of 20 or more years, unless a supplier agreed to a shorter contract, and its terms, including price, would be subject to a "just and reasonable" standard.) If the Commission determines 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 the calendar year.

Cost recovery by regulated electric utilities. If considered in the public interest, the Commission could approve a rate that allows a regulated rate provider to recover from its retail customers the cost of providing renewable energy.

Annual reports. Each electric service provider would have to submit to the Commission 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 that was 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 could impose a fine or take other appropriate action against the provider. A fine could be imposed on the basis of each kilowatt-hour of electricity not generated or acquired in violation of the standard, or using any other reasonable formula. 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.

Legislative Analyst: Shannan Kane
Fiscal Analyst: Richard Child