



RPS Cost Containment Options

State-Federal RPS Collaborative Webinar

Hosted by Clean Energy States Alliance

April 24, 2012



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State-Federal RPS Collaborative

- With funding from the Energy Foundation and the US Department of Energy, the Clean Energy States Alliance facilitates the **Collaborative**.
- Includes **state RPS administrators and regulators, federal agency representatives**, and other stakeholders.
- Advances dialogue and learning about RPS programs by **examining the challenges and potential solutions** for successful implementation of state RPS programs, including **identification of best practices**.
- To get the **monthly newsletter** and announcements of **upcoming events**, sign up for the listserv at:
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RPS Cost Containment Options

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Limiting the Cost of Renewables

Lessons for RPS Policies

Brendan Pierpont
Clean Energy States Alliance Webinar
April 24, 2012



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Agenda

1. Key Lessons Learned
2. What Are Cost Limits?
3. Effectiveness Criteria
4. Evaluation
5. Final Thoughts

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5. Final Thoughts

Key Lessons Learned

Limiting costs is not the same as minimizing costs

Cost limits can insure against high policy costs

This insurance is not free

Cost limits do not always reflect policy ambition

Cost limits sometimes fail to insure against high costs

Appropriate design depends on policy and market context

1. Key Lessons Learned
2. What Are Cost Limits?
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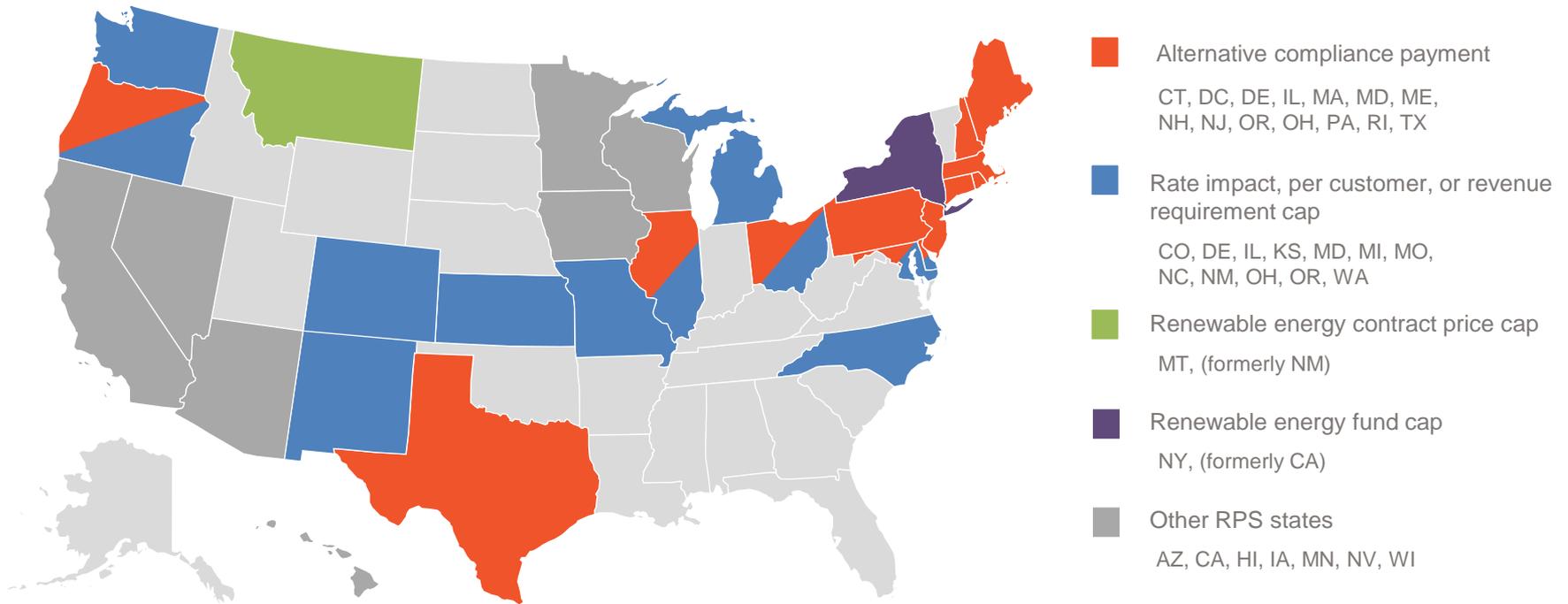
Objectives of Cost Limits

Objective	Example of Approach
“Release valve” for prices	Alternative compliance payment
Codify budgetary or political cost constraints	Retail rate or revenue requirement impact cap Renewable energy fund cap
Protect ratepayers	All approaches

Approaches Used to Limit Costs

Approach	Description
Alternative compliance payment	Payment to meet compliance obligations, rather than retiring RECs Creates de facto REC price ceiling
Contract price cap	Price of contracts limited by statute or regulation
Retail rate or revenue requirement impact cap	Maximum percentage change in retail rates, or percentage of revenue requirement used for renewables
Renewable energy fund cap	Pre-determined amount of available funding
Other approaches	Regulatory discretion to ensure “just and reasonable rates” PURPA avoided cost tests Force majeure, other “off-ramps”

Current Approaches



Sources: Stockmayer, Finch, Komor, Mignogna (2012),
Wiser and Barbose (2011), DSIRE Database

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2. What Are Cost Limits?
- 3. Effectiveness Criteria**
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What Does an Effective Cost Limit Do?

Insures against high costs

Minimizes policy costs

Supports achievement of renewable energy targets

Effectiveness Criteria

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
Binding cost limit	All relevant costs and benefits covered	Enables target achievement
Clearly defined scope	Incentives to reduce costs	Set commensurate with expected cost
Predictable consequences	Efficient market operation	Allows for uncertainty in costs
	Economies of scale and financing	Ratepayers bear appropriate risks

Effectiveness Criteria

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
<p>Binding cost limit</p> <p>Clearly defined scope</p> <p>Predictable consequences</p>	<p>All relevant costs and benefits covered</p> <p>Incentives to reduce costs</p> <p>Efficient market operation</p> <p>Economies of scale and financing</p>	<p>Enables target achievement</p> <p>Set commensurate with expected cost</p> <p>Allows for uncertainty in costs</p> <p>Ratepayers bear appropriate risks</p>

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Alternative compliance payment

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
		

Key Takeaways:

- Simple, well-defined mechanism functions as a “release valve” on tradable REC prices
- Cost-effectiveness driven by procurement approach, not ACP
- Allows policy compliance without renewable energy generation

Contract price cap

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Key Takeaways:

- Has been treated by market participants as a price floor, rather than price ceiling
- Often set at levels that impede procurement of renewable energy

Retail rate or revenue requirement impact cap

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
		

Key Takeaways:

- Often complex and ambiguously defined
- Sometimes determined politically, and not set based on expected costs
- Sometimes constrains procurement, sometimes costs exceed cap

Renewable energy fund cap

Insures Against High Costs	Minimizes Policy Costs	Supports Achievement of Targets
		

Key Takeaways:

- Funding increased, or new sources of funding authorized, when costs exceed cap
- Inconsistency in implementation can increase market uncertainty

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Lessons Learned

Limiting costs is not the same as minimizing costs

Cost limits can insure against high policy costs

This insurance is not free

Cost limits do not always reflect policy ambition

Cost limits sometimes fail to insure against high costs

Appropriate design depends on policy and market context

What can regulators do?

Don't rely on cost limits to drive cost-effectiveness of policy

Don't use cost limits to constrain policy ambition, only use to protect ratepayers against key risks

Avoid distorting the market with public, contract-level price signals

Choose a cost limit approach that complements underlying policy design and market structure

Use clearly-defined and simple mechanisms to limit costs

Thanks for attending!

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