

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Establishment of rule on Renewable  
Portfolio Standard.

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**COMMENTS OF THE FLORIDA SOLAR COALITION  
ON DECEMBER 3, 2008 WORKSHOP**

On December 3, 2008 the Commission held a workshop in this Renewable Portfolio Standard (RPS) docket which focused on three separate topics: 1) Navigant Consulting, Inc.'s Full Report Draft of November 24, 2008 identifying existing and potential renewable energy resources in Florida and evaluating the economic impact of various levels of renewable generation through 2020; 2) Staff's presentations with regard to the interaction of integrated resource planning with RPS goals and specific RPS implementation issues (ACPs, feed-in tariffs, recovery of utility investment in renewables, cost containment issues) and 3) Commissioner Skop's standard offer contract proposal. These comments will address these distinct areas individually.

**Navigant's November 24, 2008 Draft Report**

Consistent with the results of the study done by Crossborder Energy for the Florida Solar Coalition (FSC), Navigant's survey of technical potential for renewable energy shows that the state has the technical potential to reach 20% by 2020. Also consistent with Crossborder Energy's study is Navigant's conclusion that Florida could obtain from 12% in its mid favorable case to 27% renewable energy in its most favorable case by 2020 assuming the adoption of an RPS program with RECs whose costs range between 2% and 5% of annual retail sales. Navigant's calculation excludes solar thermal water heating below 2 MW, which means that it excludes low-cost residential and small commercial distributed generation projects. If these projects are included, and 15 year standard offer contracts are utilized, the cost of achieving 20% by 2020 can be achieved with a 4% of annual retail sales cap as stated in the Crossborder Energy study.

The bottom line is that the Navigant report supports the conclusion of FSC that the higher

renewable energy target of 20% by 2020 can be reached without undue economic impact on the ratepayer. The Commission should adopt a 20% by 2020 goal for this reason.

### **Staff comments**

Concerning the integration of renewables into the integrated resource planning (IRP) process used to produce a least-cost generation expansion plan, FSC generally agrees with the Staff's analysis with the following exceptions. First, there is little difference from a modeling standpoint between new demand side management programs and RPS goals which are either a form of supply-side resources (biomass, PV, wind and waste heat facilities) or reduce kWh demand (residential and commercial PV and solar hot water). Just as utilities currently project the reduction in kWh demand due to new demand side management programs, the IOU will be able to project the reduction in kWh demand due to the installation of new residential PV and solar hot water systems. Likewise, the utility will be able to model projected PV, biomass, wind and waste heat MWs based on its goals. Obviously, as these renewable facilities are constructed, they will move into the existing supply side resources category from a modeling perspective. To the extent that RPS goals require set amounts of solar, wind, biomass and waste heat, the cost of the "least cost plan" will likely be higher in the first years that the RPS goals are implemented when compared to the cost of a plan without these RPS facilities. However, the Navigant and Crossborder Energy studies both conclude that the cost of the RPS facilities will substantially decrease over time which will make the "least cost plan" IRP in 2020 with the RPS facilities essentially the same as that without RPS facilities.

Second, Staff has used as a typical solar resource, a new home construction rooftop mounted PV system at a REC cost of \$196/Mwh or its alternative rollout strategies analysis. [Ballinger, Slide 17] As stated above, both the Navigant and Crossborder Energy studies conclude that the REC cost of rooftop mounted PV will decline to \$80/MH by 2020. Failure to take the declining cost of PV into account has significantly inflated the estimated cost of meeting all of the goals in Staff's Cases A-C by use of 100%

solar. [Ballinger, Slide 18] Likewise, it has inflated the cost of meeting the 25% solar/75% biomass case as well which then inflates the percentage of retail revenues required to meet the Staff's Cases A and C goals. [Ballinger, Slide 20]

FSC has calculated that if there is an allocation of 25% to Class I (wind and solar) and 75% to Class II (biomass and waste heat), 16.6% of retail sales can be served by renewables in 2017 using a 15 year standard offer contract with a rate impact of 2.7% for Class I solar and wind facilities.

Third, with regard to the concept of a "Clean Energy Portfolio", FSC does not agree that nuclear power is a renewable energy source and objects to the expansion of a Renewable Energy Portfolio to a Clean Energy Portfolio which includes nuclear power. This position is clearly supported by the specific language of §366.92(2)(c), F.S., which refers to the definition of renewable energy in §366.91(2)(d), F.S.: "electrical energy produced from a method that uses one or more of the following fuels or energy sources: hydrogen produced from sources other than fossil fuels, biomass, solar energy, geothermal energy, wind energy, ocean energy, and hydroelectric power. The term includes the alternative energy resource, waste heat, from sulfuric acid manufacturing operations." Even if one completely ignores the fact that nuclear fuel is not a renewable fuel, as the Staff notes, inclusion of **existing** nuclear generation in an expanded Clean Energy Portfolio plan would eliminate the need for Florida Power & Light Company or Progress Energy of Florida, the state's two largest electric utilities, from being required to add **any new renewable** resources to meet a 20% by 2020 goal. [Ballinger, Slide 23] FSC suggests that this does not in any way match the legislature's stated intent to "promote the development of renewable energy" as stated in §366.92(1), F.S.

Fourth, under the Staff's proposed rule, an investor-owned utility (IOU) could meet its RPS goal two ways: construct a certified renewable facility or buy RECs from third parties who had constructed a certified renewable facility in Florida. As explained at the December 3<sup>rd</sup> workshop, should an IOU construct its own facility, the capital, operational and maintenance costs of the renewable facility would

be recovered through a separate Renewable Energy Cost Recovery Clause (RERC) in addition to any REC market administrative costs. The cost of RECs purchased from third parties as well as energy (firm and as-available) and capacity payments made to renewable facilities would also be recovered through the clause. The Staff also indicated that the IOU would be able to recover a higher ROE on its renewable facilities than allowed on its other capital investments.

Thus, if the IOU builds its own renewable facility it gets accelerated capital recovery of all costs associated with the plant which includes a higher ROE than its allowed rate of return. That is, the regulatory treatment for its renewable resource is better than the regulatory treatment for a nuclear or IGCC plant. That is the case because for a nuclear or IGCC plant, the IOU only gets accelerated treatment for “preconstruction costs” as defined by §366.93(1)(f), F.S. The IOU does not get an enhanced ROE for its capital investment in a nuclear or IGCC plant, nor does it get to accelerate the recovery of the entire cost of the nuclear or IGCC plant. Once the nuclear or IGCC site is cleared, the costs for those facilities must be recovered through base rates if the plant is placed into commercial service. §366.93(4), F.S.

When an IOU purchases RECs from a third party constructed renewable facility, the price of the REC and energy and capacity, if sold to the IOU, will be recovered through the RERC. Since the REC price will be the difference between the levelized cost of energy of the renewable facility and the levelized cost of energy from its fossil fuel generation equivalent (combustion turbine or combined cycle natural gas for peaking and base load equivalents respectively), the REC price will be substantially less than that of the entire IOU renewable facility capital and O&M costs. As FSC understands it, all of these IOU costs will be subtracted from the “revenue cost cap RPS amount” for each year allowing IOU renewable energy projects to deplete much more of the yearly RPS pool than equivalent third party renewable energy projects. It is essential that third party projects be placed on an equal footing with those of the IOUs. The Staff’s proposal is strongly skewed in favor of the IOUs. The way to correct this is for

the IOU's capital investment in renewables to be recovered through base rates with the cost of REC market administration and the cost of purchasing RECs from third parties as well as renewable energy and capacity being recovered through the RERC. To the extent that an IOU is not earning its authorized rate of return, the Commission need not concern itself that the IOU will file the appropriate full or limited proceeding to remedy the situation.

### **Standard offer contracts**

FSC is highly supportive of the concept advanced by Commissioner Skop of expanding the standard offer contracts now in use by the Commission to include a REC component. Commissioner Skop noted that his proposal was to provide a framework for establishing standard offer contracts of which the first step is to establish a revenue cap, the second step is to determine allocations between solar rebates and standard offer contracts and the final step is to work out the details of implementing the standard offer contract, e.g., methods for modifying the price. FSC sees this as a sound approach. With regard to the expenditure cap, FSC continues to recommend a cap set at 4% of retail revenues. With regard to establishing a rebate fund, FSC recommends allowing participation of residential and small commercial solar hot water and photovoltaic systems in the rebate program. However, FSC recommends that larger net metered systems be required to participate in the standard offer REC program.

Within the standard offer REC program, FSC agrees with Commissioner Skop that these contracts must be tailored to each renewable technology based upon each technology's capital and O&M costs plus a return on equity. FSC recommends that the "REC price" for supply side resources represent the delta between the technology's cost and the avoided cost of power. For demand side resources (residential PV and solar hot water), the REC price would be set by the delta between the technology's cost and retail rates. FSC further recommends that REC prices be set to decline over time. These reductions in REC price reflect the establishment of a renewable energy infrastructure and market in Florida. FSC estimates that Class I technologies can supply approximately 4,400 MW by 2017 with a

rate impact of 2.7% of annual retail revenues using 15 year standard offer contracts allocated with 25% to Class I and 75% to Class II technologies.

It appears that Commissioner Skop is advocating an “all in one price including a REC attribute” for each renewable technology. FSC’s position is that the REC component should be totally separate from the avoided cost or energy components in the standard offer contract. In that way, a renewable energy provider can pick whether it wants to supply capacity, energy on a firm or as-available basis or RECs or some combination of all three. This would also require the least modification of the long-standing format for the IOU standard offer contracts. All one would need to do is add another section addressing REC price for each technology.

Commissioner Skop has proposed that all renewable technologies compete for 95% of the revenue cap money. During the question and answer period, Commissioner Skop noted that one viable option would be to set a capacity target for each technology per service territory. FSC supports this general approach. Navigant’s study concludes that the two most viable renewable technologies in Florida between now and 2020 are solar and biomass. Both Navigant’s study and Crossborder Energy’s study conclude that at this time the price of biomass per MWh is substantially cheaper than that of solar technologies. Given this undisputed fact, the Legislature specifically directed that the Commission “provide added weight to energy provided by wind and solar photovoltaic over other forms of renewable energy, whether directly supplied or procured or indirectly obtained through the purchase of renewable energy credits.” §366.92(3)(b)3, F.S. For these reasons, there should continue to be a set aside for Class I wind and solar technologies as proposed in the Staff’s draft rule under a standard offer contract proposal.

Commissioner Skop has read the definitions of “renewable portfolio standard” and “renewable energy credit” in §§366.92(2)(d) and (e), F.S., to allow the satisfaction of an IOU’s RPS goals by the energy produced by renewable resources leaving “compliance RECs” available for sale to out-of-state

IOUs. FSC agrees that to the extent that an IOU has generated surplus RECs over that needed to meet its own RPS goals from the construction of its own renewable resources, those resources should be sold and any moneys credited back to ratepayers through the RERC. However, FSC is concerned that Commissioner Skop's interpretation of §366.92(d) and (e), F.S., would lead to an unintended "double counting" of RECs. The double counting would arise when an IOU used the MWh produced from its own renewable facility to satisfy its own RPS energy goals and then sold RECs from that facility based on MWhs generated to other states. In sum, FSC does not think that MWhs generated by a renewable facility can be separated from the concept of compliance RECs.

Finally, FSC would reiterate that the devil is in the details with regard to any type of RPS program whether implemented through a standard offer contract, market trading, RFPs or some combination of these mechanisms. The actual details of how a standard offer contract would work need to be the subject of a Chapter 120, F.S., administrative rulemaking proceeding with adequate time given to complete the process. However, FSC strongly agrees with Commissioner Skop that the use of technology specific standard offer contracts coupled with bidding for IOU self-build projects avoids the substantial delay and costs associated with developing a Florida tradable REC market. And, it has the added benefit of being familiar to all stakeholders: Commission, providers and IOUs. Further, even if the Legislature again decides this session to require the development of a tradable REC market, the use of standard offer contracts and IOU renewable RFPs can be used to successfully bridge the gap between the present and the date that tradable REC market is developed and operational.

Respectfully submitted this \_\_\_\_\_ day of \_\_\_\_\_, 2008 by:

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