

ACORE Chicago Regional Renewable Energy Roundtable: Policies for Phase II

**Office of Foley & Lardner
Chicago, Illinois
July 26, 2005**

The Chicago Regional Roundtable was held at the office of Foley & Lardner and sponsored by the firm as well. Its organization was supported by co-organizing partners Marathon Capital and Power Equipment Associates.

Background

This was one of a series of regional outreach meetings that took place from July to September 2005 in Austin, Boston, Chicago, Los Angeles, Phoenix, Portland, Sacramento, San Diego, San Francisco, Raleigh, Seattle, and Washington, DC. There were 41 participants, versus a plan for 20-25 participants, covering essentially all of ACORE's eight membership circles, as listed in Attachment A.

In 2005, ACORE seeks to engage the renewable energy community with a series of regional roundtables about Phase II. Through this dialogue, ACORE seeks to identify the policies for implementing renewable energy successfully over the next 20-30 years.

Following the regional meetings that are taking place in July, August and September, a national conference will be held in Washington, DC from October 17-18 to showcase the best of policy proposals from around the country.

For Phase II to be a success our goals will require a stable, predictable and widely accepted policy envelope, with positive elements for utilities and end users, for fuel suppliers and vehicle owners, and for institutions and individuals. To this end the discussion was framed with the following questions:

- How can renewable energy supply 30%-40%-50% of our country's energy requirements by the middle of this century?
- What regional policies are successful?
- What will be necessary to make RE successful nationally?

Notes from the Roundtable: Regional Policy

The initial discussion focused on regional developments and new regional ideas that support the utilization and deployment of renewables in the region. Below are summarized comments in thematic groups.

Illinois RPS: Just passed by the utilities commission in July, the new RPS seeks 2% renewables by 2007, or about 800 MW of new renewables versus the about 100 MW in place today, with an additional 8% renewables by 2013, then totaling some 3,500 MW. Many key issues are involved, including setting tariffs and regional trading of RECs. This has been a model of policy and political process, and should serve as a model for other states. Illinois also is acting in a positive way for regional cooperation, which must be a key to the Phase II initiative.

RPS Economics: One of the keys to winning the Illinois RPS has been a recognition that renewables offer a "hedging strategy" for states and utilities. The supposed high initial cost of renewables can actually be a least-cost solution when viewed in light of steadily rising fossil fuel prices. Renewable energy also offers economic development, new business development, and jobs.

The Wisconsin Case: This state has a soft RPS, in large part because the utilities are cooperating and making it happen. The program includes renewable electricity and renewable fuels. The state has an aggressive biofuels goal, but is limited by a shortage of biofuels production capacity. There additionally a strong biomass program including farm waste and forest waste. For renewable electricity, the state has a clean energy fund, and RPS, and good interconnection rules. There is an internal REC trading system among the utilities. Wisconsin is another excellent example of state leadership and utility cooperation with public sentiment and political will.

Regional Policies: Speaking from the financial sector, it is especially helpful to see regional policy being developed, because it has greater stability than state-by-state policy. An example is the cooperation of the Western Governors Association, committing to a plan for 1,000 MW of solar power generation.

Regional Developments: One of the key aspects of Phase II is realizing that the implementation is all done on a regional basis – really an aggregation of localized solutions. It was recommended that ACORE should establish a new Regional Initiative to develop regional solutions, and the Department of Energy should fund a new program of Regional Application Centers for locally-based development and applications engineering.

Illinois State and Regional Success: Illinois has benefited from three key activities, that might serve as a model for other states, or for the nation: the RPS, the state sales tax exemption on biofuels, and leadership on a regional scale. Illinois has been a regional leader, and cooperates with other states on energy and environment.

Notes from the Roundtable: National Policy

The discussion continued after midday, with a focus on ideas that can accelerate Phase II on the national level, or in other regions. Individual comments from the discussion are summarized into thematic groups below.

National perspectives: It is useful to remind ourselves that oil represented about 2% of national energy supply in the year 1900, and new renewable energy represents about 2% of national energy supply in 2000. It is clear now that the promotion of renewable energy must be a bottom-up and market-driven process, not top down from Washington. The leadership is currently coming from individual states. Future success will more likely come from regional cooperation and regional strategies. The key barriers to be overcome are transmission, interconnection, tax policies, financing, and consumer awareness.

Financing: Ultimately, Phase II is about financing renewable energy projects, whether they are rooftop PV or larger-scale wholesale power generation. There is a need for standardization of projects and financing, and for guidelines to be published by the financial community to public policy makers, so that public policy will be supportive of end users and financing of the projects.

Stability: If there is a key word in Phase II policy, it has to be stability. The private sector, that is expected to put up the necessary capital, will only do so if public policy is not undermining the needed returns on investment and repayment of debt.

Tax credits: It is worth noting that the two most effective public policies, in terms of accelerating market demand and attracting capital, have been the Production Tax Credit (PTC) for wind power, and the federal excise tax exemption on ethanol. There is no question that tax credits are effective at attracting corporate commitments.

Green Pricing Programs: These have been increasingly successful in the past ten years. Over 500 utility organizations are employing Green Pricing to meet the vocal demands of a small but important group of customers.

Utility Operating Environments: It was recognized that the utility organizations, including investor-owned, municipal and cooperative, live in a variety of operating environments in which states have system benefit funds, renewable portfolio standards, retail deregulation (retail choice), wholesale deregulation (non-utility power generation), and traditional regulation. The likely response of each utility depends on how these forces apply, combined with the local renewable energy resource and economics.

Utility Strategies: There are a wide range of utility strategies being employed in renewables. One argument is fuel diversity, bringing wind, solar, biomass, geothermal, and hydro in with coal, gas and nuclear. Another argument is the hedging effect of introducing capital-intensive no-fuel technologies like wind, hydro, and solar, for which the cost is relatively certain over the life of the facilities.

Practical Utility Solutions: There are a number of practical solutions to utility involvement with renewables, such as biomass co-firing in coal-fired boilers and solar-assisted gas-fired combined cycle. These approaches can be used to bring utilities into the use of renewables.

Technical Answers: There is much discussion in the utility industry about the difficulty of dealing with renewable power generation due to intermittency, reliability, grid effects, etc. However, study after study concludes that the issues are minimal and can be managed.

Consumer Awareness and Support: Phase II will not work until there is widespread consumer support. They need solutions that meet their needs. To do this at scale, there needs to be greater standardization of renewable energy systems and solutions.

Business Needs: The business community wants to thrive with renewables, and needs certain things to succeed: A marketplace (competition), policy stability, scale, consistency (an RPS in every state), and momentum (or an end to on-off policy that kills momentum).

Environmental Credits and Trading: There is increasing activity in carbon credit trading in Europe and to a degree in the US, along with the emergence of RECs for renewables. These activities provide the monetization of environmental benefits that is essential to the future economics and financing of renewables.

Summary

The renewable energy community needs to give attention to setting shared goals and objectives, something more robust than simple targets that are measured as the percentage of national energy supply or electricity production from renewable energy sources.

Phase II is about the renewable energy business for without them there is no implementation. There is a need to define the Who and the What of Phase II:

The Who: Key players need to be at the table, generally on the local, state and regional levels. There is a need to build models for regional cooperation, such as REC trading. There is a need to sharply define what is needed from the federal government.

The What: The imperative is to build on examples of success and best practices. There needs to be a mix of federal and state incentives that work well together. There should be regional strategies, such as tax policy, RPS requirement, and purchasing programs. We should look to the CHP model for examples of regional implementation, to greater ties with energy efficiency, and to

linkages with air quality regulations. There needs to be a continuum of regional policy development and feedback to the federal government.

Roundtable Participants:

Jeffrey Anthony	We Energies
Eric Apfelbach	Virent Energy Systems, Inc
Warren Ault	Windustry
Stephen Brinkman	Mesirow Financial
Ted Bronson	Power Equipment Associates
Tad Cooper	Advanced Service Corporation
Joshua Cynamon	Mainstay Energy
Lisa Daniels	Windustry
Alexander DePillis	Wisconsin Division of Energy
Hans Detweiler	Illinois Department of Commerce and Economic Opportunity
Pauline Doohan	Foley & Lardner
Peter Dreyfuss	U.S. Department of Energy
Mike Eckhart	ACORE
Dale Eldridge	Aura Renewable Energy Corp
Declan Flanagan	Airtricity
Steve Frankel	Governor's Office
Paul Fraser	UW-Madison
Alyssa Frederick	ACORE
Hank Habicht	Global Environment & Technology Foundation
Kellee James	Chicago Climate Exchange
Clifford Kozak	BioEnergy Advisors
Fred Kuzel	Great Lakes Biomass State & Regional Partnership
Howard Learner	Environmental Law & Policy Center
Angela Leontis	Chicago Climate Exchange
Gabriela Martin	Environmental Law & Policy Center
Michael Nakielski	University of Wisconsin-Milwaukee
Susan Nickey	Mesirow Financial
Michael Noble	Minnesotans for an Energy-Efficient Economy (ME3)
Cheryl Rezabek	Wisconsin Division of Energy
Ben Rose	Geneva Energy
Jodie Roussell	ACORE
Norm Stevens	DTE Energy
James Tynion	Foley & Lardner
Tom Weirich	ACORE
Greg White	Advanced Service Corporation
Tom White	Marathon Capital, LLC