



Testimony of:
Connecticut Fund for the Environment



Regarding
Proposed Substitute Language for S.B. 1138, LCO No. 4767, An Act
Concerning Connecticut's Clean Energy Goals

Before the Energy and Technology Committee

March 19, 2013

Submitted by Mark LeBel, Energy Fellow

Connecticut Fund for the Environment (CFE) is a non-profit organization that, along with its regional program Save the Sound, works to protect and improve the land, air and water of Connecticut and Long Island Sound on behalf of its 5,500 members. We develop partnerships and use legal and scientific expertise to achieve results that benefit our environment for current and future generations.

Dear Senator Duff, Representative Reed, and members of the Energy and Technology Committee:

CFE submits this testimony regarding the proposed substitute language for S.B. 1138, **LCO No. 4767**. This bill proposes a number of significant changes to Connecticut's Renewable Portfolio Standard ("RPS"), one of the primary mechanisms for reaching our state's clean energy goals. This bill contains several important environmentally friendly components but we ask that the committee not support any bill on this subject unless there is a reasonable certainty that it would not dilute any incentives for more local renewable energy investments, such as wind and solar.

Background and Bill Summary

Under current law, the RPS contains three separate classes, providing varying levels of incentives for different types of technologies. These incentives are provided by creating renewable energy credits ("RECs") that must be purchased by electricity suppliers in given percentages. Class I of the RPS contains the most environmentally friendly generation options, including wind and solar, the biggest percentage requirement, ramping up to 20% in 2020, and provides the largest incentives. Class II provides support for trash incineration projects. Class III incentivizes combined heat and power systems as well as energy efficiency programs. The most important changes in **LCO No. 4767** relate to Class I of the RPS. First, the bill expands the primary definition of sources eligible as a "Class I renewable energy source" to include additional types of renewable methane gas and medium-sized hydroelectric generation facilities. Second, the bill excludes certain sources that are currently eligible, closing a loophole where certain sources are double-counted for Connecticut's RPS and other state's goals and imposing a more stringent pollution standard for biomass eligibility. Third, the bill establishes a "contract tier" where a portion of the Class I requirement will be satisfied by long-term contracts, primarily expected to be filled by larger Canadian hydroelectric projects that are not generally eligible for Class I status. The remaining portion of the Class I requirement may be referred to as the "market tier". Fourth, the bill expands the overall percentage requirement after 2020 by gradually increasing the target to 25% in 2025. Lastly, the bill allows for procurement for 150 megawatts of long-term contracts with current Class I renewable energy sources, likely to be primarily wind projects.

Important Environmentally Friendly Provisions

There are many portions of this bill that are environmentally friendly and should be supported by the committee. **Subsection (h) of Section 5** allows for procurement of 150 MW current Class I resources. If this authority is fully subscribed with new wind capacity, it could generate 300 gigawatt-hours per year, around one percent of Connecticut's annual generation and a non-trivial percentage of the yearly Class I RPS requirement. By dropping the "from landfills" qualification for methane gas, **Section 1** would allow for the inclusion of anaerobic digestion as a Class I resource, a promising method of deriving energy from various types of waste. However, this should be amended slightly to indicate that only methane gas derived from renewable sources, known as biogas, would be eligible for the Class I RPS. **Portions of Section 4** increase the overall Class I requirements from the current 20% in 2020 and beyond to 25% in 2025. This requirement will continue to decrease fossil fuel generation in the broader region.

Two provisions are of particular note here. The end of **Section 1** would close an unjustifiable loophole in Class I that currently allows certain sources to count for Connecticut's RPS and the renewable energy goals of another state. **Section 1** also applies a new particulate matter limit on biomass facilities in order to qualify for Class I. Beyond the direct environmental benefits from these provisions, they also tend to counteract the diluting effect from any effective decrease in the percentage requirement for current Class I resources. This is further discussed in the next section of this testimony.

Risk of Diluting Renewable Energy Incentives

The creation of the contract tier in this bill essentially separates Class I into two separate subclasses, the contract tier and the market tier. The size of the market tier will effectively set the levels of incentives for Class I projects that do not win bids for the contract tier. If, as expected, large hydroelectric projects in Canada compose the lion's share of the contract tier, the market tier will set the incentives for the most environmentally friendly sources of energy currently included in Class I, such as new wind and solar projects. In order to compare the relative incentives under the status quo and this bill, the market tier must be compared to the current RPS requirements. The current RPS requires that electricity suppliers buy RECs equal to 10% of the electricity consumed in Connecticut in 2013. This percentage goes to 11% in 2014, ramps up to 20% in 2020 and remains at 20% for 2021 and beyond. Under **LCO No. 4767**, the market tier would be 9% in 2014, 15.5% in 2020, and 17.5% in 2025. These percentages for the market tier are obviously lower than the percentages required under the status quo. This clearly presents a risk of dilution of the standard and lower incentives for more local renewable generation.

However, it is important to recognize that the exclusion of certain biomass facilities and prohibition on double counting have the potential to significantly affect the market tier. In the last several years, large portions of the Class I RPS have been satisfied with RECs from out-of-state biomass facilities. In addition, there are facilities in New York, including landfill gas, and Vermont that would likely be excluded by the prohibition on double counting. Because of this, these exclusions deserve further study and are extremely important to a full evaluation of this bill. In principle, it is possible to exclude a substantial portion of the less desirable sources that are currently used to comply with Class I and thereby completely preserve the current incentives for the most desirable renewable energy sources. As written, the exclusion will currently depend on the decisionmaking of the affected sources. For example, biomass facilities that currently violate the proposed

particulate matter standard could choose to install new pollution controls. The timing of these exclusions is also relevant. The double counting prohibition begins in 2014 and the new particulate matter limitation on biomass begins in 2015. Lastly, the new inclusions, particularly for medium-sized hydroelectric facilities, are relevant to the question of dilution as well.

Suggested Substantive Changes

There are a variety of substantive changes here that the committee should consider. First, additional measures could be taken to strengthen the optional procurement of currently Class I resources under **subsection (h) of Section 5**. A modest amendment would insert a floor of 50 MW of procurement and raise the ceiling to 200 MW. This would allow for competition while still ensuring environmental benefits. A bolder step would be to structure ongoing procurement of long-term contracts for currently Class I resources that scales itself to the increase in the Class I RPS over time. Second, the legislation could implement even stricter standards for biomass facilities to qualify for Class I. Other states already have more stringent standards for truly clean biomass facilities and it would be high time for Connecticut to adopt them. Phase-in of these standards can also help prevent dilution of the incentives for wind and solar.

Lastly, it is important to note that the potential dilution of incentives for local renewable energy is intimately related to the achievement of the goals of the Global Warming Solutions Act (“GWSA”). Passed in 2008, this statute set targets for emissions reductions in 2020 and 2050. Any dilution of the incentives for local renewable energy will make it more difficult to meet the long-term goals of this Act. More generally, the GWSA has been stuck in limbo for the past few years. As a result of some positive trends in the energy field as well as the unfortunate effects of the Great Recession, Connecticut is well on track to meet the 2020 target. By contrast, the 2050 target is too remote to allow for effective planning right now. We recommend that the legislature establish interim targets for 2030 and 2040. This will allow for more effective energy planning and will also assure a backstop for the remaining risk of dilution of incentives for local wind and solar installations.

Thank you for your consideration.

Sincerely,

_____/s/_____

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