

Implementing PURPA In The New Renewable Energy Era

Karl R. Rábago, Executive Director
Pace Energy and Climate Center

Laura Chappelle, Counsel
Varnum Law

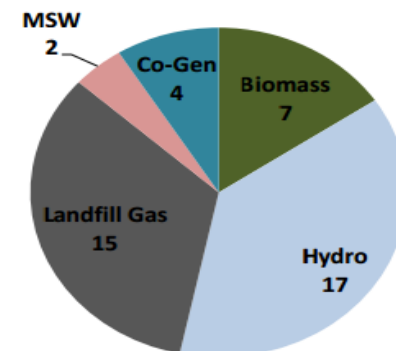
What's Happening With Renewable Energy?

- **States Have Renewable Energy Portfolio Standards**
 - Michigan's new law increases standard: 15% by 2021.
- **Large Industrial Customers Are Going Green**
 - Corporate Renewable Energy Buyers Principles: GM, P&G, Salesforce, Intel, eBay, cisco, Google, Amazon, Facebook, Yahoo, Microsoft, and HP. <http://buyersprinciples.org/>
 - Switch Data Center – Michigan – Aims to Be 100% Renewable
[wzzm13 news: Switch Data Center helps create framework for green energy](#)
 - Ford Motor Company – Michigan's largest solar array (solar-topped carpark at Ford World Headquarters)
[Ford/DTE to Build Michigan's Largest Solar Array](#)

What's Happening In Michigan?

- **PURPA QF long-term contracts are expiring**
 - Many were 20-30 years in duration
- **New Energy Laws place continued focus on renewable energy (Public Act 342)**
- **MPSC PURPA Implementation Order is 35 years old**
 - Case No. U-6798 (August, 1982) original PURPA obligations for Michigan's regulated utilities
 - PURPA law passed in 1978
- **MPSC PURPA Order: U-17973**
 - Technical Conferences: [MPSC Staff: April 2016 Final TAC Report](#)
 - Ongoing PURPA Implementation Dockets

**PURPA Contracts by Technology Type (45 Contracts in Total)
Consumers Energy & DTE Electric**



What Are The Core Features of PURPA?

1. **“Must Purchase” Obligation**

- the obligation to purchase from qualifying facilities any energy and capacity which is made available from a qualifying facility

2. **Avoided Costs/Contract Lengths**

- “incremental” costs
- Non-discriminatory rates and terms of service
- Long-term contracts

3. **Obligation to Interconnect/Stand-by Service**

- Non-discriminatory rates and terms of service

PURPA: Utility Obligations

“Must Purchase” Obligation:

- EPCRA 2005 did not terminate the must purchase obligation.
- FERC Order No. 688:
 - Electric utilities must file applications for relief (Sec. 210(m))
 - Rebuttable presumption that small QFs (20 MW and under) in markets do not have “non-discriminatory” market access
 - The original PURPA “must purchase” obligation applies to all electric utilities, including IOUs, municipals, rural cooperatives, public utility districts (PUDs), water districts, the Tennessee Valley Authority, and each federal power marketing authority, unless FERC grants a waiver.
- Utilities no longer have an obligation to purchase QF power if QF > 20 MW has non-discriminatory access to an RTO with competitive wholesale markets: MISO, PJM, ISO-NE, NYISO, SPP, ERCOT & CAISO, and utility obtains FERC waiver.
- Must Purchase Obligation applies to new and existing facilities

Avoided Cost Rates

- **FERC requires that host utilities must purchase at rates equal to the host utility's full avoided cost**
 - “the incremental cost to the electric utility of electric energy or capacity or both which, *but for* the purchase from the QF or QFs, such utility would generate itself or purchase from another source” (18 CFR sec. 292.101(b)(6)).
- **FERC defined “incremental cost” to equal utility’s full avoided cost.**
 - “incremental” cost does not mean “lowest” cost
 - FERC defines incremental costs as “derived from the concept of ‘the incremental cost to the electric utility of alternative electric energy’ set forth in section 210(d) of PURPA . . . “[i]t includes both the fixed and the running costs on an electric utility system which can be avoided by obtaining energy or capacity from qualifying facilities.” Order 69, 45 Fed Reg at 12,216
- **Avoided cost rate must be just & reasonable to electric consumers, and nondiscriminatory to QFs.**
 - Rates are discriminatory when regulated utility receives compensation for its new energy and capacity projects, especially new renewable energy resources, that are far in excess of the rates it attempts to pay QFs.
 - An avoided cost methodology cannot allow the utility to do through the back door what it can’t do through the front:
 - If the utility does not have a FERC waiver, it cannot use a methodology for Avoided Costs that relies on RTO market pricing for energy/capacity.

Non-Discriminatory Interconnection Standards

18 C.F.R. § 292.306

- QFs have the right to interconnect with a utility by paying a nondiscriminatory interconnection fee approved by the state regulatory authority or a non-regulated electric utility. Terms must be reasonable and non-discriminatory with respect to other customers with similar load characteristics.
- State commission or non-regulated electric utility must determine the manner for payment of the interconnection costs, which may include reimbursement over a reasonable period of time.
- Interconnection costs include the reasonable costs of connection, switching, metering, transmission, distribution, safety provisions, and administrative expenses incurred by the electric utility directly related to the installation and maintenance of the physical facilities necessary to permit interconnected operations with a QF.
- Costs are understood to be in excess of the corresponding costs which the electric utility would have incurred if it had not engaged in interconnected operations, but instead generated an equivalent amount of electric energy itself or purchased that energy or capacity from other sources. Interconnection costs do not include any costs included in the calculation of avoided costs. ("but for" test)
- Standard interconnection procedure and agreement for small generators (FERC Order 792).

Congress' Primary Policy Objectives Remain Today:

- Promote energy efficiency (e.g., Cogeneration).
- Reduce demand for fossil fuels (e.g., alternative energy sources like waste, wind and solar).
- Overcome reluctance of traditional utilities to purchase power from non-utility generators.

QUESTIONS?

Laura Chappelle
616-336-6920
lachappelle@varnumlaw.com
www.varnumlaw.com

Karl Rábago
914-422-4082
krabago@law.pace.edu
www.energy.pace.edu