Driving Growth in a New Policy Landscape

Insights from the 2016 National Renewable Energy Policy Forum

ACORE
American Council On Renewable Energy

ABOUT ACORE

ACORE is a national non-profit organization dedicated to advancing the renewable energy sector through market development, policy changes, and financial innovation. With a savvy staff of experts, fifteen years of experience promoting renewable energy and hundreds of member organizations from across the spectrum of renewable energy technologies, consumers, and investors, ACORE is uniquely well-positioned to strategically promote the policies and financial structures essential to renewable energy growth. The organization's annual conferences in Washington, D.C., New York and San Francisco set the industry standard in providing important venues for key leaders to meet, discuss recent developments, and hear the latest from senior government officials and seasoned experts. Additional information is available at: www.acore.org

ABOUT THE NATIONAL RENEWABLE ENERGY POLICY FORUM

The National Renewable Energy Policy Forum convenes in Washington D.C. to bring industry and policymakers together to discuss energy and tax policy, debate key issues in the changing electricity marketplace, and identify priorities for Congress, the states, and the relevant agencies. ACORE offers a platform so that industry leaders can make their voices heard as decision makers in Washington and across the country consider issues that impact the future of the renewable energy industry. Additional information is available at: www.acorepolicyforum.com

SUPPORTED BY

BrightSource

Published by:

American Council On Renewable Energy
1600 K St. NW, Suite 650
Washington, D.C. 20006
202.393.0001

Questions or Comments: info@acore.org

INTRODUCTION

As the American Council On Renewable Energy (ACORE) marks its 15th anniversary, our mission to unite business, policy and finance to accelerate the transition to a renewable energy economy has never been more relevant or important. ACORE hosted its annual National Renewable Energy Policy Forum: *Driving Growth in a New Policy Landscape* on March 17, 2016 to identify how to best execute this mission while seismic developments in national and global policies are significantly reshaping the renewable energy marketplace.

The lineup of exceptional speakers from the public and private sectors addressed the challenges and opportunities of navigating today's uncertain policy environment to help ensure continued growth and profitability across the renewable energy industry. Clean energy champions in Congress and the Administration expressed their continued support of renewable energy in keynote addresses, including Senators Ron Wyden (D-OR), Chuck Grassley (R-IA), and Sheldon Whitehouse (D-RI), as well as the U.S. Environmental Protection Agency's (EPA) Acting Assistant Administrator for Air and Radiation Janet McCabe, one of the key architects of the Clean Power Plan. Forum participants represented a wide range of constituencies in the renewable energy sector, including developers, financial institutions, corporate end-users, professional service providers, and allied non-profit groups, including the heads of the American Wind Energy Association (AWEA), Tom Kiernan and the Solar Energy Industries Association (SEIA), Rhone Resch.

A NEW STABLE – BUT UNEVEN – TAX ENVIRONMENT

The outlook for the renewable sector changed dramatically last December, when Congress broke through the gridlock to update America's tax law and at long last deliver long-term policy certainty for wind and solar energy. ACORE stands with hundreds of member companies from across the renewable sector in applauding those in Congress who made a tax deal possible. However, a number of renewable technologies require follow-up legislation to ensure a competitive environment. Speaking at the Forum, Senator Ron Wyden (D-OR), the senior Democrat on the Senate Finance Committee, announced his intention to secure tax credit extensions for the remaining renewable technologies, including geothermal, hydro, and biomass, this year. ACORE recently sent a letter in support of such extensions to key players in the Senate.[1]

Renewable energy has spurred billions in private investment in the U.S. while displacing more expensive and more polluting sources of energy. … Renewables like hydro, wind, and solar currently produce 15% of U.S. electricity. That's an American success story. I believe the future for renewables is bright.

– Senator Chuck Grassley (R-IA)

Among the most important issues addressed by the federal tax panel at the Policy Forum was the importance of key guidance still pending the Treasury Department. Still awaiting resolution are critical questions concerning

[1] http://acore.org/images/documents/ACORE-Tax-Extenders-Letter---April-7-2016.pdf

how the IRS will define the start of construction for a solar project, and how long a period wind projects will be granted to qualify for "safe harbor" from the requirement to demonstrate "continuous construction." The renewable sector is anxious to see this guidance promulgated promptly, so that the rules will be clear in time for those seeking to finance 2016 wind and solar projects.

CLEAN POWER PLAN PROSPECTS AND IMPACTS

The Supreme Court's stay of the Clean Power Plan (CPP) in early February marked an unexpected delay in efforts to carry out one of the most important rulemakings in the EPA's history. In her keynote address at the conference, EPA Acting Assistant Administrator Janet McCabe announced that the Agency interprets the stay to allow EPA, along with states, tribal governments, and utilities, to continue to move forward with planning. EPA will also continue to work on pieces that are not yet finalized – such as the Clean Energy Incentive Program, the federal implementation plan, and the model trading rules – to ensure that the agency is prepared to move forward when the rule is upheld.

Setting a hopeful tone, McCabe told the audience, "The Clean Power Plan, I think, for many states represented a sensible way to move forward." She communicated EPA's willingness to work with states ready to begin compliance, saying, "While fully respecting the existence of the stay, we have said that we will continue [to work with] any state that is seeking assistance or support from us while they continue to take these sorts of actions, we stand ready to provide that assistance to them."[2] Perhaps most importantly, McCabe emphasized that the EPA is not planning to forfeit ground on the rule. Calling speculation on changes to the 2022 start date for CPP compliance "a little premature," McCabe highlighted the agency's hope that minimal time would be lost to litigation, and that any clarifying work completed in the meantime will be done in a manner that is in full compliance with the stay.

The Clean Power Plan and existing REC markets are incredibly compatible and complementary. State programs such as Renewable Portfolio Standards are great approaches states can use to put into compliance plans or programs to reduce greenhouse gases.

– Janet McCabe, Acting Assistant Administrator, Office of Air and Radiation, EPA

Bill Becker, Executive Director of the National Association of Clean Air Agencies, participated in the Forum panel on the CPP and warned that if the rule should be overturned in court, states will press forward and a patchwork quilt of clean power regulation that will continue spreading across the country, ultimately leading many CPP opponents to seek Federal action.

Justice Scalia's death, only four days after the stay was issued, led many commentators to suggest that the Supreme Court will ultimately uphold the Clean Power Plan. Yet the stay is likely to delay implementation efforts by more than a year, even as states respond in dramatically different ways. In the meantime, it will be up to the renewable sector and its allies to maintain the

[2] http://www.eenews.net/climatewire/stories/1060034244

public and private sector momentum behind the shift to renewable generation. Two speakers on the CPP panel at the Policy Forum, AWEA President Tom Kiernan and SEIA President Rhone Resch, indicated that they are prepared for the challenge. Both emphasized their organizations' continuing commitments to working with allies to strengthen state renewable energy mandates and increase renewable deployment, even as legal review of the CPP continues. ACORE is closely monitoring the fate of the Clean Power Plan, having actively participated in the formal process for comments on the rule.[3]

Section 115 is a flexible tool that is legally defensible and can enable us to address greenhouse gas emissions on a multi-sector basis.

– Robert Sussman, former Deputy EPA Administrator and Adjunct Professor, Georgetown University Law Center

BUILDING ON THE PARIS AGREEMENT

Another key driver for the renewable energy market, both globally and in the U.S., is the Paris Agreement announced in December 2015. The Agreement establishes a goal of limiting the global average surface temperature increase to below 2°C above pre-industrial levels, and retains a hope of limiting the increase to 1.5°C. Over 180 countries have committed to Nationally Determined Contributions (NDCs) that collectively move the world toward those important goals. The agreement calls on countries to assess progress and submit new targets every five years. The U.S. NDC commits to reducing U.S. emissions 26-28% below 2005 levels by 2025.

Under business as usual, about $7 trillion will be invested in renewables over the next 25 years, but to reach the Paris goal, roughly $12 trillion will need to be invested to build out renewable energy markets around the world.

The Paris agreement has also opened discussion about using another section of the Clean Air Act – section 115, *International Air Pollution* – to address greenhouse gas emissions from the rest of the U.S. economy (beyond the electricity sector) to achieve the targets in the U.S. NDC. Section 115 enables the United States to work cooperatively with other nations to address transboundary air pollution issues of mutual concern. The section presents two requirements for EPA before it can take action: (1) to make a finding that U.S. emissions are likely to endanger health or welfare in other nations, and (2) to determine that there is reciprocity with the other countries affected, meaning the United States has the same rights with respect to the prevention or control of pollution occurring in these other nations. The Paris Agreement, as well as bilateral agreements, bolster the argument for reciprocity to confront climate change. Clean Air Act experts have argued that Section 115 could be used to direct states to achieve reductions across sectors, though it would be controversial. Former EPA Deputy Administrator Robert Sussman, currently an adjunct professor at the Georgetown University Law Center, participated in the Policy Forum panel on the Paris Agreement and commented that "Section

[3] http://acore.org/resources/publications/5253-comments-to-epa-s-clean-power-plan

The more options customers have, the more they will want to exercise them. How can we enable customers instead of fighting them?

– Betty Watson, Deputy Director, Policy & Electricity Markets, SolarCity

115 is a flexible tool that is legally defensible and can enable us to address greenhouse gas emissions on a multi-sector basis."

There is no question that the Paris commitments are far more ambitious than the objectives of the CPP and will almost certainly require additional federal action, whether under Clean Air Act Section 115 or under other authority. Clearly, the renewable sector must be fully engaged on strategy, education and outreach to aid public officials as we seek a pathway to achieve the required greenhouse emissions reductions.

A DYNAMIC ELECTRICITY SECTOR

Meanwhile, as renewable energy is deployed across the country at an accelerating pace, updated regulatory policies and business models are necessary to facilitate its integration, minimize potential negative market impacts, and increase system reliability. Against the backdrop of an aging electric grid infrastructure, growing consumer and corporate demand for low-carbon electricity, and increasing deployment of distributed generation, federal and state governments are shifting strategies to adapt to this changing electricity marketplace.

Corporate Demand

Consumers are increasingly driving demand for renewable energy, which presents a challenge to utility business models and is having ripple effects across the industry. Notably, corporate end users are fundamentally remaking the model for electric power sales in the renewable sector, procuring renewable energy at what was once considered utility scale. Companies are employing a variety of financial tools to procure and invest in renewables, including physical and virtual power purchase agreements (PPAs) and using their own balance sheets to invest in debt, equity, and recently, green bonds. In 2015 alone, roughly 3.4 GW of capacity was contracted by corporate end users, representing a significant increase from the 1.2 GW contracted in 2014.

Large corporate renewable energy purchasers are also using their influence to advocate for policies that eliminate barriers and advance opportunities for renewable energy deployment, particularly on the state level. In addition, corporate purchasers are working directly with utilities to create options (e.g., green tariffs) that help them and others purchase renewable energy at scale and with speed.

Emerging Issues in Integrating Renewable Energy

Efficient dispatch of renewables is proving challenging in some areas – particularly the West, where there are 38 separate balancing authority areas, and the only Independent System Operator (ISO) is in California. While a Western energy imbalance market, launched in November 2014, has led to reliability improvements and more efficient dispatch of renewable energy, some key players and environmental advocates are promoting the creation of a broader Western ISO or regional transmission organization (RTO) that could accommodate greater renewable penetration and reduce projected renewable power curtailments in California.

The rapid pace of technological development also increases the importance of creating optionality and interoperability in the electrical system, so the grid is better prepared for renewable and ancillary service technologies. Some states are implementing programs to adapt to innovation; New York's Reforming the Energy Vision (REV) effort, for example, is creating a platform that allows competitive third-party providers to effectively plug into state distribution networks. The idea of opening markets to all available resources is important but still faces real difficulties, especially for services like energy storage that are not yet fully valued in the market.

Valuing Distributed Generation

The appropriate payment that utilities in net energy metering states should pay for rooftop solar has recently been the subject of intense debate across the country. Some argue that full-retail-rate net metering overpays residential customers, and is part of a trend that eventually could undermine the financial capacity of the utility to maintain the grid. There are also arguments that net metering leads to cost-shifting from more affluent to less affluent customers. However, others maintain that when solar is assessed in the context of the larger electricity system, it is worth more than the retail rate in some locations because it helps the efficiency of the entire system. More than 25 states considered changes to their net metering policies in 2015, raising important questions about projected impacts on distributed generation markets. Clearly, however it is important to embrace policies that encourage continued growth of both centralized and distributed renewable energy.

CONCLUSION

Federal and state support over the next few years will be critical as the renewable energy sector reaches new milestones and stands alongside conventional technologies as a dominant source of power in the U.S. ACORE stands ready to support the renewable industry, and advocate for the critical policy and market changes needed to complete the transition to a renewable energy economy.