

**STATE and LOCAL  
FISCAL IMPACT**

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**Prime Sponsor(s):** Rep. Scott **Bill Status:** House Transportation and Energy  
**Fiscal Analyst:** Marc Carey (303-866-4102)

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**SHORT TITLE:** ELECTRIC RENEWABLE ENERGY STANDARD REDUCTION

<b>Fiscal Impact Summary*</b>	<b>FY 2014-2015</b>	<b>FY 2015-2016</b>
<b>State Revenue</b>		
<b>State Expenditures</b>	Minimal impact. See State Expenditures section.	
<b>FTE Position Change</b>		
<b>Appropriation Required:</b> None		

*\* This summary shows changes from current law under the bill for each fiscal year.*

**Summary of Legislation**

Current law contains a renewable energy standard (RES) for all electric utilities in the state. These standards require a minimum percentage of electricity that retail electric providers must generate or cause to be generated from recycled energy and renewable energy resources. This bill reduces the required percentage for investor-owned utilities (IOUs) from 20 percent to 15 percent for the years 2015 through 2019 and from 30 percent to 15 percent for the years 2020 and thereafter. The bill also reduces the required percentage for cooperative electric associations (CEAs) from 20 percent to 15 percent for the years 2020 and thereafter.

**Background**

To comply with RES requirements, utilities have three options. First, they could build their own eligible generation facilities. Second, they could enter into power purchase agreements with the owner of an eligible energy generation facility. Finally, they could purchase existing renewable energy credits (RECs). Each of these options involves additional costs, the first two of which could be offset partially or wholly by restructuring existing power generation resources.

RECs are tradeable certificates that represent proof that one megawatt-hour (MWh) of electricity was generated from an eligible renewable energy resource. These certificates can be bought and sold and the owner of the REC can claim to have purchased renewable energy. RECs represent the environmental attributes of the power produced from renewable energy projects. Currently, RECs are bought and sold through bi-lateral agreements. There is no national market clearinghouse.

The price of RECs varies substantially by geographic region. According to the United States Department of Energy, between January 2012 and May 2013, prices for RECs to comply with state RESs varied widely. For example, in New England in 2013, REC prices ranged from \$20 per REC in Maine to \$55 per REC in Connecticut and \$64 per REC in Massachusetts. In contrast, according to the Colorado Public Utilities Commission (PUC), RECs in Texas are currently selling for less than \$1 due to the growth in wind generation. In Colorado, and most other western states, the majority of RECs are registered and tracked by the Western Renewable Energy Generation Information System (WREGIS). RECs are retired once they are counted against RES requirements. According to the PUC, after compliance with the 2013 RES requirements, Xcel Energy owns 15.4 million excess RECs from its own generation and power purchase agreements.

### **State Expenditures**

***Department of Regulatory Agencies, Public Utilities Commission.*** The bill requires minor conforming changes to the PUC RES rules to change the RES requirements for IOUs and CEAs. As such, the impact is minimal, and no additional appropriation is required.

**State Agency Impact.** Current law contains a 2 percent cap on the retail rate impact of the RES for IOUs and CEAs. This bill leaves the 2 percent retail rate impact rule intact for all of these utilities.

Instead, the bill relaxes the RES requirement for both IOUs and CEAs. According to the PUC, Xcel Energy currently has more renewable resources than necessary to meet a 20 percent requirement and enough RECs to comply with the 30 percent RES requirement beyond 2020. Under this bill, Xcel would have significantly more excess RECs than they do today, so state agencies with utility service from either Xcel or utilities that purchase wholesale electricity from Xcel would see no change in their utility bills.

According to the PUC, Black Hills Energy, the state's other IOU, currently has enough renewable resources to meet the 12 percent requirement but not the 15 percent requirement beginning in 2015 contemplated in this bill. Likewise, all CEAs are also below the 15 percent compliance requirement.

The retail rate impact rule is required to be determined "net of alternative sources of electricity supply from noneligible energy resources that are reasonably available at the time of determination." Thus, the rate impact of acquiring renewable resources depends on the cost differential between renewable resource acquisition and "reasonably available" conventional resource acquisition, typically natural gas. Natural gas prices are highly volatile. Wellhead prices have been as high as \$11 per thousand cubic feet (Mcf) in July 2008, as low as \$1.80 per Mcf in April 2012, and are now around \$4.70 per Mcf at regional hubs. The future cost differential will depend on the future price of renewable resources and the future price of natural gas, as well as anticipated technology changes for both resources.

Because a prediction of future rate impacts would depend on assumptions regarding future fuel costs as well as an unknown resource acquisition schedule, the exact impact to state facilities served by these entities is not possible to quantify.

**Local Government Impact**

Local governments and school districts could see their energy bills change depending on their electric utility. For the reasons discussed in the State Agency Impact section above, the exact impact to the utility bills of local governments is not possible to quantify.

**Effective Date**

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed.

**State and Local Government Contacts**

Regulatory Agencies