

ESSENTIAL ELEMENTS OF NEXT-GENERATION RENEWABLE ENERGY TARIFFS

Voluntary utility programs can play a critical role in meeting the needs of Corporate America—with the right program design

Corporate demand for renewable energy is growing.

The ability to control energy costs and sources has always been a critical business priority, particularly for energy-intensive industries. As renewable energy technologies such as wind and solar continue to drop in price, these sources are an increasingly attractive option for companies seeking to lower costs while protecting against fluctuating fuel prices.

At the same time, a growing number of companies have codified their commitment to renewable energy by setting a public target. In the U.S., 71 Fortune 100 companies and 215 Fortune 500 companies (43%) have set renewable energy or energy-related sustainability commitments as of 2016—and the number is rising.¹

Renewable energy tariffs offer one approach for vertically integrated utilities to meet corporate needs.

There are a number of approaches to purchasing renewable energy, ranging from onsite generation to virtual power purchase agreements (PPAs) to direct purchasing in competitive markets. Renewable energy tariffs give customers of vertically integrated utilities the option of purchasing renewable energy through their utility. Well-designed programs can give customers access to cost-competitive renewable energy without shifting costs to other customers or risking stranded assets for utilities. Such renewable

energy tariffs can allow states with vertically integrated utilities to attract and retain top corporations by enabling companies to follow through on their clean energy targets.

Renewable energy tariffs can be win-wins for the corporate buyer and the utility. The first generation of renewable energy tariffs, developed starting in 2013, had mixed results: those that met corporate needs in whole or in part saw significant project development, totaling nearly 1 gigawatt of renewable energy across the country to date; those that failed to meet corporate needs went largely unused.² Moving forward, utilities have an opportunity to

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build upon the successes and learn lessons from the failures. Careful, creative, and collaborative program design can help develop the next generation of renewable energy tariffs that address the needs and preferences of corporate participants, nonparticipating customers, utilities, and regulators alike.

Three categories of renewable energy tariffs

Sleeved PPA tariffs allow large customers to purchase energy from an offsite renewable project, with the terms of the PPA contract “sleeved” through that customer’s local utility and electricity delivered to the customer by the utility.

Subscription-based programs serve multiple customers from the output of one or more renewable energy facilities owned or contracted by the utility, and generally provide customers with flexibility in terms of subscription size and length.

Market-based rates replace the energy portion of a customer’s bill with a dynamic variable rate that moves up and down with wholesale market prices. The market-based rate does not itself supply renewable energy, but it can work in parallel with a virtual PPA between a customer and a renewable energy project or a renewable energy offering from the utility, providing a more direct correlation between the customer’s electricity rates (per kWh usage) and the variable market price of the renewable energy sold into the wholesale market.³

Six elements of successful utility renewable energy tariffs

While every program should be tailored to meet state-specific circumstances, the most successful next generation renewable energy tariffs will incorporate the following six design elements to meet the needs of renewable energy buyers, utilities, and other electricity customers:

- 1 No impact on nonparticipating customers.** Corporate purchasers, utilities, ratepayer advocates, and other stakeholders unanimously agree that voluntary utility programs should not impact nonparticipating customers, and programs should be designed with this goal in mind; in particular, uncapped programs allowing participation by existing customers may require additional design parameters to ensure that nonparticipating customers are not impacted as large utility customers shift their electricity consumption away from existing utility resources and toward new renewable energy assets.⁴
- 2 Program pricing that reflects actual market pricing and program costs.** Locked-in price premiums have made utility voluntary renewable energy purchasing programs unpopular among potential customers. To meet customer needs, programs should instead charge customers according to the actual cost of the resources, whether that results in a net premium or net savings for customers. Similarly, high administrative and system costs will make programs unattractive and dampen or prevent participation. Instead, utilities should accurately allocate both the costs and benefits to participating customers, and look for ways to lower costs, such as turning to third parties to pay for or find ways to lower administrative costs and program fees.
- 3 Competitive project selection.** A competitive project solicitation process with participation open to both utilities and third-party suppliers will bring costs down for consumers. Depending on the program type, this may take the form of direct negotiation by participating customers or a transparent and competitive procurement process for a portfolio of utility-supplied resources.
- 4 Development of new renewable energy, beyond business-as-usual.** Many corporate purchasers have public renewable energy or energy-related sustainability targets that include specific requirements to facilitate development of new renewable energy facilities and/or to demonstrate greenhouse gas reductions. To meet the needs of these customers, programs should specifically give customers the option of purchasing net new renewable energy, and allow them to retain the associated Renewable Energy Credits (RECs).
- 5 Allowing a range of customers to participate.** Prospective participants in voluntary renewable energy programs span industry segments and have varied energy requirements. To enable participation by a full range of interested customers, programs should allow participation by both new and existing customers, and by customers with different load profiles, such as aggregated loads or a single, large load. Furthermore, many companies prefer to meet their entire renewable energy goal in a given state through a single solution. With the average PPA signed by individual corporate purchasers over each of the past three years exceeding 90 MW, programs should either set high program caps or, preferably, avoid such caps altogether.⁵
- 6 Varied or flexible offerings to meet the needs of different customers.** There is no one-size-fits all offering that will meet the needs and preferences of all corporate purchasers. By providing a range of offerings and allowing for flexibility and special contracts within programs, utilities can meet the needs of the full range of corporate purchasers while still ensuring that the utility's needs and the needs of other customers are also met.

These six elements should be considered in parallel, not in isolation, as part of an inclusive program design process involving a broad range of stakeholders, from utilities and corporate purchasers to residential customer advocates and state economic development offices. By addressing corporate needs through consideration of these six essential elements, and through creative thinking and a spirit of compromise, all stakeholders ultimately stand to benefit from corporate renewable energy purchasing.

Endnotes: 1) <http://info.aee.net/growth-in-corporate-advanced-energy-demand-market-benefits-report> 2) <http://www.wri.org/resources/charts-graphs/grid-transformation-green-tariff-deals> 3) For more detail, see <http://www.wri.org/publication/implementation-guide-green-tariffs> 4) A report from AEE Institute considers this issue in detail, see <http://info.aee.net/making-corporate-renewable-energy-purchasing-work-for-all-utility-customers> 5) The average size of a PPA for a single company was 169 MW in 2014, 98 MW in 2015, and 97 MW in 2016. See http://www.businessrenewables.org/downloads/brc_nov_2016/State-of-the-market.pdf.