LocalEnergyAlliance of Washington

Platform for State Policy Support of Clean Distributed Energy

DRAFT FOR DISCUSSION – June 2011

Programs and Policies to Nurture the Distributed Energy Market

Several policy strategies can aid the development of small-scale energy facilities throughout Washington State stimulating a clean local energy economy without a substantial cost to the State. WALEA has identified the priorities below as most important to enable the growth of renewable distributed energy and community involvement in meeting local energy needs:

1) **Improve Permitting Processes for All Distributed Energy:** Permitting is often the most substantial obstacle for distributed energy in Washington. In areas where the market is emerging, zoning variances are approached one at a time. If potential installations in a certain county or a city justify the effort, then working towards a revision in the zoning laws may be worthwhile, but the process is typically long and challenging. Many jurisdictions do not have the resources or expertise available to evaluate permit requests for small projects and have requested help from the state. Also, various infrastructure improvement projects are not coordinated and are more costly in the end. We recommend:
    - Providing a streamlined state pathway for small projects as defined in original HB 1081/SB 5228 and expanded to include all projects meeting the I-937 definition of 'distributed generation.'
    - Requiring local jurisdictions to allow appropriate distributed energy systems as a "permitted use" and follow recommendations and best practices for appropriate review established through a balanced stakeholder process.[1]
    - For community wind projects, charging standard per MW fees to fund habitat mitigation banks in lieu of expensive environmental impact studies that are more appropriate for larger projects.
    - Allowing for systems that can power entire homes in residential areas in accordance with the state's definition of net metering.
    - Simplifying air quality compliance for biodigesters and other forms of biomass.
    - Accelerating processing of water rights requests for small hydro projects.
    - Coordinating permitting of infrastructure improvements to include coincident development of distributed energy resources when appropriate. This type of coordination should be considered as part of long-term energy and infrastructure planning processes.

2) **Establish Standard Tariff Schedules:** Distributed energy projects have a hard time competing with the low retail power rates associated with the region's existing base of large-scale hydro generation and should instead be valued in line with other new "incremental" generation sources per FERC guidelines. We recommend:
    - Setting "true" avoided cost or incremental cost rates to allow fair access, such as PSE's Schedule 91.
    - Establishing a standard methodology for avoided-cost determination that includes T&D losses, climate change credits, and time of use factors as relevant criteria for calculation.
    - Initiating proceedings to determine appropriate incentive levels for all distributed energy technologies under a 'Feed in Tariff', which would serve as a broad support mechanism to supplement the limited cost recovery incentive (discussed below).

[1] http://www.awea.org/learnabout/smallwind/upload/InThePublicInterest.pdf

- Including waste heat/district energy/combined heat and power as an eligible resource.
- Establishing a Clean Energy Standard Offer Program (CESOP) to encourage the development of renewables and clean energy production facilities.

3) **Improve Net Metering and Interconnection:** Washington State scored a "B" on net metering and a "D" on interconnection in the latest Freeing the Grid[2] grade cards. More progress is needed to fix problems and streamline interconnection standards. We recommend:
   - Allowing community net metering as described in HB 1049 to allow renters and multiple customers to jointly share benefits of a distributed energy installation.[3]
   - Implementing state working group for interconnection equipment pre-certification and an annual review process for interconnection standards.
   - Removing system size limitations (or increase caps to 5 MW) to allow customers to meet all on-site energy needs cost effectively.
   - Removing program capacity limit or increase to at least 5% of a utility's peak demand.
   - Simplifying providing review processes for interconnection of distributed energy so they are similar to connecting a load of similar capacity.
   - For residential net metered systems, standardize building code requirements related to insurance and disconnects to provide leadership for smaller jurisdictions, reduce costs and remove barriers for homeowners.
   - Continuing the practice of customers retaining ownership of renewable energy credits (RECs) under net metering as recognition of their capital investments and to help build the REC market (discussed below).

4) **Improve Cost-Recovery Incentive Programs, funded by Clean Energy Standard Offer Program:** Washington's current renewable energy incentive is capped at about 7 kW for wind and 75 kW for community solar, and each year's payment is not guaranteed due to the uncertain nature of the program. The program is in need of an overhaul to rationalize its logic, both in terms of benefit to the state and to the distributed energy industry as a whole. We recommend:
   - Increasing the funding pool through a CESOP (discussed above). 14 states offer incentive programs funded through a similar small System Benefit Charge on electric rates ($1-$5/yr per customer) for renewable energy, energy efficiency, low-income assistance, R&D, and economic development, totaling $3.5 Billion in cumulative funding through 2012. CA alone dedicates $135 M/yr through this mechanism.
   - Authorizing UTC and WSU with flexibility to tailor and target incentives strategically to provide the state the most benefit per dollar spent.
   - Allowing incentive payments for projects with third party ownership.
   - For small wind turbines, limiting eligibility to certified equipment to protect consumers from misleading claims.[4]

5) **Enhance REC Market and Establish Carbon Mitigation Program:** Distributed energy incentives can be funded through renewable portfolio standard (RPS) policies, as in NY, and through optional payments into a carbon dioxide mitigation fund. We recommend:
   - Creating a firm distributed energy "carve out" under the state's RPS to provide a revenue stream for distributed energy RECs such as in AZ, CO, and NM.
   - Creating a distributed energy-specific RPS to push utilities forward in seeking out distributed energy opportunities and open doors for related utility efforts such as simplifying

[2] http://www.newenergychoices.org/uploads/FreeingTheGrid2010.pdf
[3] http://irecusa.org/2010/11/irec-releases-first-model-program-rules-for-community-renewables/
[4] www.smallwindcertification.org

interconnection, providing attractive prices for power, installing their own projects (such as the City of Ellensburg), and advertising and promoting distributed energy.
- Establishing an energy conservation carbon mitigation program.
- Building on the state's existing carbon mitigation law, climate change reduction credits as described in SB 5509 to help accelerate market change.

6) **Establish a State Lending Program to Leverage Federal and Private Dollars:** Financing is often another major obstacle for distributed energy projects. We recommend:
   - Using the state's bonding authority to make reasonable rate loans available for renewable distributed energy projects that utilize the USDA REAP loan guarantee, which limits risks to the state by guaranteeing 85% of the loan amount. Projects utilizing the USDA loan guarantee have improved chances for REAP grants, bringing additional federal dollars to the state. This low-cost approach has helped Oregon receive 10 times more USDA funding for renewables than WA.
   - Using private capital to buy-down interest rates on loans and to help securitize potential loans for project development. Create investment 'vehicles' for long-term community-scale or corporate investment.

7) **Consider Establishing a Production-Based Buy Down Program.** "Buy-down" or rebate programs are extremely effective for distributed energy and can be used by homeowners, non-profits, tax-exempt organizations, and government agencies. We recommend:
   - Considering establishing up-front incentive payments which are more effective at offsetting capital costs and enabling financing, and can be paid based on expected production or energy avoidance and directly to vendors to simplify paperwork for consumers. CA, OR, NY, NJ & VT offer 40% or more.[5]

Improving the policy environment and state support for locally owned and operated clean energy installations will provide substantial **benefits to the local economy.** Offering high economic and social benefits, distributed energy reduces the need for costly upgrades to the electric distribution and transmission grid, diversifies our resources, and provides opportunities for self-sufficiency.

WALEA is not seeking to remove or reduce state or local taxes for distributed energy as these direct revenues are a key selling point for local jurisdictions. Federal tax incentives for distributed energy have improved in recent years, but are still not sufficient to stimulate the market in Washington State considering the barriers that need to be overcome. Removing our local regulatory barriers for distributed energy is a critical need to support our state's clean energy future.

Most of the recommendations above can be accomplished without significant additional state funding. Even in these tough economic times, the state can take many steps to stimulate this important sector of the economy that do not include putting money directly into the projects. By removing barriers and creating a fair business environment, Washington State can open the doors for private and federal dollars to work locally.

On behalf of the state's fledgling distributed energy industry, we respectfully urge you to consider prioritizing these approaches to support local economies and encourage local initiative. Thank you for your consideration and your representation of many Washingtonians actively engaged in community and distributed energy projects.

[5] Incentives Database: www.dsireusa.org

Local Energy Alliance of Washington

Local Energy Alliance of Washington (WALEA) is a new trade association of developers, contractors, consultants, financiers, manufacturers, nonprofits and private citizens seeking solutions to energy challenges at the community level. All of us have a stake in a future where every county in Washington State participates in the financial benefits of our energy grid's ongoing diversification to a wider mix of clean decentralized energy supply and efficient consumption.

WALEA was formed in early 2011 to:

- Advocate for and support the distributed renewable energy generation industry in Washington;
- Work to influence Washington legislation of direct interest to its members;
- Work with city and county governments to develop and/or promote ordinances and policies favorable to distributed renewable energy generation; and
- Work with utilities and other agencies to develop and/or promote policies favorable to distributed renewable energy generation.

Charter Members

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Cascade Community Wind

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Convivium Renewable Energy

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